Supreme Court, U.S.
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No. 97-___

In The

Supreme Court of the United States

October Term, 1997

EASTMAN KODAK COMPANY,

Petitioner,

v.

IMAGE TECHNICAL SERVICES, INC., J-E-S-P COMPANY, INC., SHIELDS BUSINESS MACHINES, INC., MICROGRAPHIC SERVICES, INC., OMNI MICRO-GRAPHIC SERVICES, INC., ATLANTA GENERAL MICROFILM CO., INC., DATEK LTD., B.C.S. TECHNICAL SERVICES, INC., CPO LTD., INC., ADVANCED SYSTEMS SERVICE, INC., AND AMTECH EQUIPMENT MAINTENANCE, INC.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

PETITION FOR WRIT OF CERTIORARI

HERBERT HOVENKAMP
University of Iowa
College of Law
407 Boyd Law Building
University of Iowa
Iowa City, Iowa 52242
Telephone: (319) 335-9079
Of Counsel

DONN P. PICKETT
Counsel of Record
DANIEL M. WALL
ALFRED C. PFEIFFER, JR.
McCUTCHEN, DOYLE, BROWN & ENERSEN, LLP
Three Embarcadero Center
San Francisco, California 94111
Telephone: (415) 393-2000
Attorneys for Petitioner

February 5, 1998

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QUESTIONS PRESENTED

1. Whether Section 2 of the Sherman Antitrust Act limits the statutory rights of a patent or copyright owner, acting unilaterally, to refuse to sell or license its protected works to competitors, and, if so, whether such rights are lost or compromised because of the mental state that accompanied the refusal to deal, *i.e.*, because the refusal to deal was anticompetitively motivated.

2. Whether a firm may be found to have violated Section 2 of the Sherman Act by refusing to provide competitors with goods or services that were not proven to be (a) monopolized, (b) elsewhere unavailable to competitors, or (c) essential to their competitive viability.

3. Whether, under *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992), monopoly power in an aftermarket for the service of a single branded good may be found notwithstanding that (a) the defendant lacks monopoly power in the primary equipment markets, and (b) there is no evidence that it raised prices to supracompetitive levels following an opportunistic policy change.

LIST OF PARTIES AND RULE 29.6 LIST

The caption of this petition identifies all parties in the lower court. Petitioner Eastman Kodak Company has no parent corporation. Kodak's subsidiaries, other than wholly owned subsidiaries, are listed below:

Beijing Imagetek Information Co., Ltd.
Chinon Industries, Inc.
Chinon Insurance Co., Ltd.
Hermes Precisa Pty., Ltd.
HPA (Old) Pty., Ltd.
HPA Unit Trust
Imagetek International, Ltd.
K.H. Optical Co., Ltd.
Kodak India, Ltd.
NanoSystems L.L.C.
Union Fotografica Venezolana II, C.A.

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OPINIONS BELOW

The Ninth Circuit's decision is reported at 125 F.3d 1195 and is reproduced in the Appendix ("App.") at 1A-79A. The district court's unreported permanent injunction order is at App. 80B-85B, and its post-judgment memorandum on motion for permanent injunction, reported at 1996-2 Trade Cas. (CCH) ¶ 71,624 and 1996 WL 101173, is at App. 86B-96B. The Court of Appeals' unreported order denying Kodak's petition for rehearing is at App. 97C-98C.

STATEMENT OF JURISDICTION

The Court of Appeals entered judgment on August 26, 1997, and denied rehearing on November 7, 1997. App. 1A; 97C. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The statutes involved are 15 U.S.C. § 2, 35 U.S.C. §§ 154 & 271(d)(4), and 17 U.S.C. § 106. They appear verbatim at App. 99D-103D.

STATEMENT OF THE CASE

In the name of *Eastman Kodak Co. v. Image Technical Services, Inc.*, 504 U.S. 451 (1992) (*"Kodak I"*), a prior decision in this case, the Ninth Circuit has stripped all objective content from the antitrust doctrine governing monopolistic refusals to deal. It has held that a refusal to deal may be found unlawful *without inquiry* into whether (a) defendant monopolized the specific competitive inputs plaintiffs demanded, (b) plaintiffs had no alternative sources for those inputs, or (c) access to those inputs from defendant was essential to plaintiffs' competitive survival. By eliminating the objective elements other circuits use to evaluate refusal-to-deal claims, the court affirmed an absurd, anticompetitive result: that Kodak monopolized by refusing to inventory for competitors parts they could get elsewhere.

So sweeping is the Ninth Circuit's new doctrine that it even forces Kodak to share patented and copyrighted parts

with competitors, thus nullifying explicit statutory rights. It was settled that patent and copyright owners, even monopolists, had unconstrained rights to exclusive use of their inventions, and thus could refuse to share their works with competitors. The Ninth Circuit simply changed this rule, holding that an anticompetitively motivated refusal to sell or license intellectual property is unlawful. This decision – from the Court of Appeals that covers America's principal technology centers – conflicts with every other decision on point, especially *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, 508 U.S. 49, 64 (1993), which held that conditioning the exercise of a copyright "upon a demonstrated lack of anticompetitive intent would upset the notion of copyright as a 'limited grant' of 'monopoly privileges.' "

Moreover, this all concerns a fictitious monopoly that nearly all manufacturers of durable goods have: a monopoly over the service of Kodak's own products. In *Kodak I*, this Court (over the dissent of Justices Scalia, O'Connor and Thomas), held that a derivative aftermarket could be a relevant antitrust market, even for a firm that does not monopolize the equipment foremarket. But there were limits to the Court's willingness to entertain "aftermarket monopoly" claims, the most important being an evidentiary requirement of "installed-base opportunism" leading to supracompetitive price increases. The First, Sixth and Seventh Circuits understood this, but the Ninth did not. It affirms a finding of monopoly power that is economic nonsense, as indicated most ironically by Kodak's exit from the copier business (sales and service) because of consistent unprofitability shortly after being condemned as a monopolist.

The common thread in this petition is that monopolization law must have objective content, lest jury evaluations of what is "reasonable" and "intended" expose all competitive business conduct, even the exercise of intellectual property rights, to potential liability. The Ninth Circuit chose a different path. The result shows how unrestrained monopolization law can have distinctly anticompetitive effects.

1. *Factual Background.* Kodak manufactures high-volume photocopiers and micrographics equipment. "Competition in these markets is strong." App. 3A. Kodak's primary copier competition came from Xerox, which dominates the industry. *Id.*; ER-112; 311. Plaintiffs calculated Kodak's copier market share at under 20%. ER-323. Kodak's highest market share in any micrographics market is under 30%. ER-185-188. These businesses have been minimally profitable, earning (on the combined business of equipment, parts and service) rates of return below Kodak's cost of capital.

Because these products require constant service, service and support policies are a principal product-selection factor for most consumers. ER-110-111; 144; 159. In fact, most "service" is sold in the same transactions through which customers acquire equipment. Tr.489-93; 5083. Customers are routinely informed about both equipment and service costs before they make a purchase decision, and most are copying or "image management" professionals. ER-116-126.

Since the mid-1980s, independent service organizations ("ISOs") have competed with Kodak for service contracts. To compete, ISOs need inventories of Kodak-compatible replacement parts. Kodak does too, and its service organization developed a state-of-the-art parts logistics system by collecting parts from hundreds of third-party parts suppliers, from salvage, and, for about 20% of the parts, from Kodak manufacturing. ER-172. Kodak also developed sophisticated diagnostic software and service manuals to increase the productivity of its service technicians. CR-438; ER-324; 163; 171. Kodak acquired substantial intellectual property rights as a result of its investments. Some 65 parts are patented, and all of Kodak's service software and publications are copyrighted. ER-173-176.

This case is based on Kodak's reactions to the ISO competition that arose in the 1980s. Those reactions, as proven, *do not include* most of the conduct once alleged by plaintiffs and addressed by the Court in *Kodak I*. *See* 504 U.S. at 458. Plaintiffs' case changed radically after this Court's decision, in three principal ways.

First, *Kodak I* was primarily about tying, *i.e.*, the claim that Kodak sold parts to customers "only if they agreed not to buy service from ISOs." *Id.* at 463. The Court reviewed this claim as a potential *per se* violation of Section 1 of the Sherman Act. But, in fact, Kodak did not engage in tying, and plaintiffs abandoned that allegation during trial. ER-217. The case went to the jury solely on a unilateral refusal-to-deal claim under Section 2 of the Sherman Act.

Second, in *Kodak I*, plaintiffs' claims were about access to parts in the tangible, physical sense, as distinguished from the *service* of *warehousing* parts for when they are needed. Plaintiffs said they were willing to warehouse parts, as an investment "in the service market." *Id.* at 485. But, allegedly, they could not do so because Kodak had cut off all available sources of parts. *Id.* at 458, 463.

At trial, plaintiffs' focus changed 180 degrees. They claimed problems getting only a few parts, and admitted "[t]here never was a machine these plaintiffs couldn't fix because they didn't have a part." ER-223. They argued, however, "that is not the issue in this case," because antitrust law required Kodak to provide them with a one-stop "assured source" of *all parts*, including parts available elsewhere. ER-223; CR-568 at 23 ("an assured source of *all* of the parts, available *all* of the time"). This claim that Kodak must *warehouse a full line* of parts for ISOs was the centerpiece of plaintiffs' closing:

> You have to have *an assured supply of parts*, and that's what these plaintiffs are saying to you. Only by opening up Kodak's parts coffers can they be assured that they can go out to customers and say to them: "I, with confidence, can service your machine, because I know that no matter what part I need, I can get that part to service your machine. I can service your machine because I have *an assured supply of parts*." ER-223.

Kodak had refused to be the ISOs' "assured supply of parts," among other reasons because the request inherently asked for a "free ride" on Kodak's investments in parts logistics. Notably, the Ninth Circuit affirmed the judgment even

though it *agreed* that ordering Kodak to sell "all parts" to ISOs "promotes free-riding." App. 67A (modifying injunction).

Third, *Kodak I* was about the alleged exploitation of "locked-in" Kodak equipment owners by (a) an unexpected change of service policies that (b) allowed Kodak to raise "lifecycle prices" to supracompetitive levels. 504 U.S. at 473-77. Plaintiffs also abandoned this theory, for good reason. First, as Justice Scalia pointed out in his *Kodak I* dissent, 504 U.S. at 492, Kodak never "changed" its copier parts policy; its management declined the ISOs' requests for copier parts the first time it was an issue. ER-101; 108-109. Moreover, Kodak changed its micrographics parts policy only *prospectively*, for new micrographics products introduced after 1986. ER-148. Kodak continued selling parts for then-existing micrographics products. It therefore did nothing to upset the expectations of already "locked-in" consumers.

Even more importantly, there was no supracompetitive service price increase; not to "service" nor to lifecycle prices. ER-115; 120; 129; 135-136; 150; 159; 192-193. This critical allegation was false.

2. *The Trial Court's Decisions:* Trial began in June 1995. Two disputed jury instructions are relevant here. One concerned the relevance of Kodak's patents and copyrights. After eliciting extensive testimony about its investments in service technology, Kodak requested an instruction that "Kodak may not be found to have willfully maintained monopoly power by refusing to sell its patented parts to the plaintiffs," or by "exercising the rights that accompany a lawful copyright," including "the exclusive right to copy and distribute" a copyrighted work. CR-459. The court, however, adopted plaintiffs' essentially antithetical instructions, and told the jury that "the fact that some of the replacement parts are patented or copyrighted does not provide Kodak with a defense against any of [plaintiffs'] claims."[1] CR-463.

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[1] The Court also refused to instruct that the exercise of intellectual property rights was an "ordinary means of competition." The instructions

The parties also disputed the basic elements of plaintiffs' refusal-to-deal claim. Plaintiffs' instruction, based loosely on *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585 (1985), stated that it was "unlawful . . . for a monopolist to engage in conduct, including refusals to deal, that unnecessarily excludes or handicaps competitors in order to maintain a monopoly." CR-463. Kodak proposed to give the jury objective factors for determining *when* a refusal to deal "unnecessarily excludes or handicaps competitors," specifically that: (1) Kodak has monopoly power over specific parts plaintiffs sought, (2) "plaintiffs have no feasible alternatives to obtaining these parts from Kodak," and (3) the parts are essential to the plaintiffs' competitive survival. CR-459. The court refused, ruling that "unnecessarily excludes or handicaps competitors" was specific enough.

The jury found Kodak liable for monopolizing two Kodak service markets. Plaintiffs were awarded $23,950,300, ER-340, which was trebled. Motions for judgment as a matter of law and for a new trial were denied. CR-588. A judgment of liability entered on January 18, 1996, CR-589, followed by a permanent injunction requiring Kodak to sell to ISOs all parts, service manuals and service tools on "reasonable and nondiscriminatory" terms, including patented and copyrighted items, and parts Kodak buys from others. App. 80B; 83B.

3. *The Court of Appeals Decision:* The Ninth Circuit affirmed liability, reversed and remanded one half of the damages award, and modified the injunction. App. 74A.

a. Intellectual Property: The court acknowledged that "no reported case . . . has imposed antitrust liability for a unilateral refusal to sell or license a patent[ed] or copyright[ed]" work. App. 43A. It held the district court *abused its discretion* by failing to protect Kodak's intellectual property rights. App. 49A. However, the court held the error harmless by speculating that a properly instructed jury would have found that the desire to "profit from its intellectual property

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were so absolute that, in closing, plaintiffs' counsel simply read them and said, "[S]o much for the whole argument of patents." ER-224.

rights" "played no part in [Kodak's] decision" not to deal with ISOs. *Id.* at 51A, 52A. Thus, based on intent, the Ninth Circuit *became* the first court to "impose[ ] antitrust liability" for a unilateral refusal to share intellectual property. App. 43A.

b. Refusal-to-Deal Standards: The court held that refusal-to-deal claims are governed by the unavailability and essentiality elements Kodak proposed only if the plaintiff pleads the "essential facilities" doctrine. App. 26A. Alternatively, plaintiff may plead "monopoly leveraging" and attack any refusal to deal that is intentionally "to the detriment of competitors," that "unnecessarily excludes or handicaps competitors," and is not subjectively motivated by a legitimately competitive business justification. *Id.* at 24A-25A; 30A-31A. The court based this "more general application of § 2 principles to refusal-to-deal cases" on *Aspen* and footnote 32 of *Kodak I.* App. 31A.

c. Aftermarket Monopoly: The court found sufficient proof of monopoly power in Kodak's high service-market shares, and evidence regarding switching costs, "information imperfections," and profitability. App. 32A-33A. It did not address the absence of evidence that Kodak raised service prices opportunistically.

REASONS FOR GRANTING THE PETITION

No issues are more important in today's technology-dominated economy than the scope of the rights to control one's intellectual property and the legitimate competitive advantages from investment in superior means of production, distribution or support. The Ninth Circuit's highly visible decision eviscerates those rights by eliminating all objectivity from a critical antitrust doctrine. The decision contradicts most other circuits and upsets settled law. Review is needed to provide critical guidance for intellectual property owners and all who choose not to share the fruits of their investments with competitors. Three specific errors warrant review.

First, the decision effectively amends statutes that expressly permit patent and copyright owners to refuse unilaterally to sell or license their intellectual property. It makes intent, which is particularly ill-suited for summary adjudication or meaningful appellate review, a dispositive issue. It conflicts with all prior cases, including this Court's decision in *Professional Real Estate Investors.*

Second, the decision eliminates from the evaluation of allegedly monopolistic refusals to deal the objective requirements that each asset demanded be monopolized, elsewhere unavailable and essential. Because Section 2 applies to unilateral conduct, "the most common conduct in the economy," App. 46A-47A, "this Court [has] been careful to avoid constructions of § 2 which might chill competition, rather than foster it." *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 458 (1993). But here, relying on heavily criticized portions of *Aspen* and *Kodak I*,[2] the Ninth Circuit stripped the content out of refusal-to-deal law, shedding elements that are fixtures in other circuits. This clear conflict needs to be addressed.

Third, the decision undermines *Kodak I* by allowing proof of ubiquitous economic conditions – a manufacturer servicing most of its own products and "market imperfections" – to sustain a finding of monopoly. Other circuits have limited *Kodak I* to the key allegation, abandoned at trial, that Kodak opportunistically raised service prices to locked-in customers. An aberrant Court of Appeals decision in the seminal case should not be allowed to stand.

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[2] On *Aspen*, see Thomas G. Krattenmaker & Steven C. Salop, *Anticompetitive Exclusion: Raising Rivals' Costs To Achieve Power Over Price*, 96 Yale L.J. 209, 213 (1986) (*Aspen* "lack[s] a coherent analytical framework"), and Thomas Kauper, *Antitrust in 1992: The Year of the Storyteller*, 61 Antitrust L.J. 347, 359 (1993) (*Aspen*'s conduct analysis "mystifying"). On *Kodak I*, see Kauper, *supra*, at 357 (calling the Court's conduct analysis "cursory"), and *The Supreme Court, 1991 Term: Leading Cases*, 106 Harv. L. Rev. 163, 328, 337 (1992).

I. The Petition Should Be Granted To Resolve Conflicting Decisions As To Whether Antitrust Law Restricts The Rights Of Patent And Copyright Owners To Refuse To Deal With Rivals.

Competition is increasingly driven by technological innovation. The relationship between the laws promoting innovation, principally patent and copyright law, and the proscriptions of antitrust law is therefore more important than ever.[3]

It is exceptionally problematic then, that the decision below upsets what was one of the few settled issues in this area: that an intellectual property owner, acting unilaterally, may refuse to license or sell protected works to competitors. The Ninth Circuit acknowledged the correct rule, changed it, and adopted the worst, most unpredictable alternative: that the legality of a unilateral refusal to share intellectual property turns on the defendant's *mental state*, *i.e.*, its intent. Literally no authority supports this position, and it flaunts *Professional Real Estate Investors,* which held that conditioning intellectual property rights "upon a demonstrated lack of anticompetitive intent" is improper. 508 U.S. at 64.

The *cause* of this error presents an especially compelling case for *certiorari*. The decision below is the second recent decision (following *Data General Corp. v. Grumman Systems Support Corp.*, 36 F.3d 1147 (1st Cir. 1994)), in which courts have essentially made up new, case-specific ways of harmonizing antitrust and intellectual property laws. Such judicial legislating can only add uncertainty to the law, and it has: *Data General* and the decision below address the same issue differently, and reach opposite conclusions. But results aside,

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[3] *See* Willard K. Tom & Joshua A. Newberg, *Antitrust and Intellectual Property: From Separate Spheres to Unified Field*, 66 Antitrust L.J. 167 (1997); *FTC Staff Report: Competition Policy in the New High-Tech, Global Marketplace*, 64 Antitrust L.J. 791, 791 (1996); U.S. Dept. of Justice & Fed. Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property (April 6, 1995) [hereinafter "*IP Guidelines*"], *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,132.

individual federal courts ought not be balancing antitrust and intellectual property interests *ad hoc*. They should defer to the balance *Congress struck*, by respecting the unilateral exercise of explicit intellectual property rights.

A. Unilateral Refusals to Share Intellectual Property Have Been Historically Exempt from Antitrust Scrutiny.

The purpose of the intellectual property laws is "to motivate the creative activity of authors and inventors by the provision of a special reward." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). This reward is in the nature of "a limited monopoly, the exercise of which will enable [the inventor] to secure the financial rewards for his invention." *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 250 (1942).

"The heart of [the] legal monopoly" is the package of exclusive rights defined by statute. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969); *accord Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980). Patent holders may "exclude others from making, using, offering for sale, or selling [a patented] invention throughout the United States" for a specified period of time. 35 U.S.C. § 154. Copyright owners have the exclusive right to "distribute copies . . . of the copyrighted work to the public." 17 U.S.C. § 106(3). The doctrine of "misuse" restricts the monopoly, but "refus[ing] to license or use any rights to the patent" is, by statute, not misuse. 35 U.S.C. § 271(d)(4).

Private litigants have often tried to condition intellectual property rights on compliance with general antitrust doctrine, but in the case of unilateral refusals to deal, never successfully. The Ninth Circuit could "find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright." App. 43A.

Many cases *refuse* to impose such liability. The leading ones are *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1209 (2d Cir. 1981) (liability for refusal to license would "severely trample upon the incentives provided by our patent laws"),

cert. denied, 455 U.S. 1016 (1982); *Miller Insituform, Inc. v. Insituform of North America, Inc.*, 830 F.2d 606, 609 (6th Cir. 1987) ("the holder of a patent retains the power to exclude others from manufacturing, using, and selling his inventions without running afoul of the antitrust laws"), *cert. denied*, 484 U.S. 1064 (1988); *Service & Training, Inc. v. Data General Corp.*, 963 F.2d 680, 686 (4th Cir. 1992) (no duty to license diagnostic software to ISO); and *United States v. Westinghouse Electronics Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) ("right to . . . refuse to license at all, is 'the untrammeled right' of the patentee"). For Kodak, a frustrating example of the correct ruling is *In re Independent Service Organizations Antitrust Litigation*, ___ F. Supp. ___, 1997 WL 805237 (D. Kan. 1997), in which a district court, expressly repudiating the Ninth Circuit's decision, granted Xerox – Kodak's much larger copier rival – partial summary judgment on claims that it monopolized by refusing to sell patented parts or license copyrighted software to ISOs.[4] The Department of Justice and the Federal Trade Commission agree that monopoly power does not "impose on the intellectual property owner an obligation to license the use of that property to others." *IP Guidelines*, *supra* note 3, § 2.2.

This historic uniformity reflects judicial deference to Congress' judgment that intellectual property rights *promote competition* over the long run. *Id.* § 1.0. Therefore, exercising such rights does not reduce competition. *See Miller Insituform*, 830 F.2d at 609 (refusal to deal had "no adverse effect on competition since, as a patent monopolist, [the patent holder] had [the] exclusive right to manufacture, use, and sell his invention"). This yields a simple, reliable rule: there can be no antitrust liability for merely doing "that which the patent [or copyright] laws authorize." *Westinghouse*, 648 F.2d

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[4] *Accord Tricom, Inc. v. Electronic Data Sys. Corp.*, 902 F. Supp. 741, 743 (E.D. Mich. 1995); *Advanced Computer Servs. v. MAI Sys. Corp.*, 845 F. Supp. 356 (E.D. Va. 1994).

at 647. As the Second Circuit put it in *SCM*, "conduct permissible under the patent laws cannot trigger any liability under the antitrust laws." 645 F.2d at 1206.

B. Intellectual Property Rights Are Not Subject to Antitrust "Business Justification" Doctrine.

The Ninth Circuit did not defer to Congress' judgment that intellectual property owners need not share their works. Instead, it turned a legislative policy issue into a case-specific jury issue. This was wrong from the start, as individual federal courts have no business upsetting explicit statutory rights. The end, an unprecedented rule conditioning patent and copyright privileges on a pure heart, is indefensible.

Data General inspired the Ninth Circuit's decision. There (as here), an ISO claimed that an equipment manufacturer monopolized by refusing to license specialized service software to ISOs. The software was copyrighted, and another court had ruled that Data General did not have to share it with competitors. *Service & Training*, 963 F.2d at 686, 688. The First Circuit ultimately agreed, but in a lengthy *dictum* discussed, as if it were an issue of first impression, the relationship between intellectual property and antitrust laws. It then announced a brand new way of harmonizing the two "as best we can." *Data General*, 36 F.3d at 1187. The court said that "a monopolist's unilateral refusal to license" a copyrighted work is subject to antitrust proscriptions, but that "an author's desire to exclude others from use of its copyrighted work is a presumptively valid business justification for any immediate harm to consumers." *Id.* This was the first time any court even suggested that intellectual property ownership created only a qualified right to refuse to license, or that business justification doctrine was relevant.

The Ninth Circuit's opinion expands *Data General*'s new doctrine by (1) applying business justification principles to patents as well as copyrights, and (2) making intent a critical issue. App. 48A, 50A-51A. The court holds that a patent or copyright "defense" fails if the jury finds that the refusal to

deal "was not actually motivated by protecting [the defendant's] intellectual property rights," but was instead "a scheme to monopolize." App. 51A; 52A.

1. The root problem with both *Data General* and this decision is that the right to exclude others from using one's intellectual property is far more than a conditional, rebuttable "justification defense" to an antitrust claim. Business justifications in the antitrust sense are case-specific factors that help courts decide whether particular refusals to deal "are fairly characterized as exclusionary." *Aspen*, 472 U.S. at 602. Intellectual property rights, in contrast, are explicit statutory rights. It is *always* justified to assert unilaterally a valid patent or copyright, unless there has been "misuse" or a violation of some other limitation on the right that Congress established. Absent claims of invalidity or misuse, there is nothing case-specific to consider. And it makes no sense to consider whether the assertion of the right is "fairly characterized as 'exclusionary,' " *Aspen*, 472 U.S. at 602, because exclusion is the essence, "[t]he heart of," every assertion of an intellectual property right. *Zenith Radio*, 395 U.S. at 135.

Instead, courts must respect the Congressional judgment that whatever short-term competitive losses result from the exercise of patents and copyrights are outweighed by the long-term gains from increased innovation. Ironically, *Data General* says it best: "We cannot require antitrust defendants to prove and reprove the merits of this legislative assumption in every case." 36 F.3d at 1187.

There was no claim of misuse here, nor of invalidity. There was only a claim that Kodak leveraged its intellectual property rights into the "wrong" market (service), but without regard to how patent or copyright law would define the scope of Kodak's rights. *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708-09 (Fed. Cir. 1992) (patent extends to any market "reasonably within the patent grant"); *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1337 (9th Cir. 1995) (diagnostic software copyright "extend[s] to the service market"), *cert. denied*, 116 S. Ct. 1015 (1996). The

court compromised Kodak's rights solely under antitrust doctrine.[5] That is unprecedented and wrong.

The danger of letting courts make their own judgments as to when it is socially acceptable to exercise intellectual property rights is seen in the fact that the First and Ninth Circuits are now in conflict not only with other circuits, but with each other. Under *Data General*, only copyright privileges are at risk, the key issue is whether refusals to license "frustrate the objectives of the Copyright Act," 36 F.3d at 1187 n.64, and "a search for an overriding 'antisocial' motivation," is immaterial. *Id.* at 1188-89. The Ninth Circuit rule covers patents and copyrights, and makes intent dispositive. Two departures from a settled rule; two conflicting tests.

2. The Ninth Circuit's test presents two important questions. First, even if business justification analysis were to apply, why should an objectively justified refusal to deal be condemned on intent alone? Consider the result in this case: Kodak indisputably has valid intellectual property rights and the Court of Appeals held that the ISOs' demand for "an assured supply of parts" "promotes free-riding." ER-223; App. 67A. Kodak thus had two objectively valid objections to the ISOs' demands. Yet because of a cryptic hint in *Kodak I* of pretextualness as a basis for invalidating a business justification, 504 U.S. at 484, Kodak stands condemned.

The Court cannot have intended this result. It is too arbitrary, and contradicts *Aspen*'s holding that intent is "merely relevant to the question whether the challenged conduct is fairly characterized as 'exclusionary' " – which cannot be when there are objectively valid justifications for a refusal to deal. 472 U.S. at 602. It also reverses a strong trend in antitrust law away from the vagaries of intent determinations towards more objective analyses. *Olympia Equip. Leasing Co.*

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[5] *See* App. 46A & 47A ("liability depends largely on [antitrust] market definition" principles and "the legitimacy of the asserted business justifications"). The court acknowledged but ignored the misuse standards of intellectual property law. *Id.* at 44A.

v. Western Union Tel. Co., 797 F.2d 370, 379 (7th Cir. 1986) (Posner, J.), *cert. denied*, 480 U.S. 934 (1987).

Second, even if *Kodak I* meant to permit intent findings to undermine some business justifications, that cannot be the rule for intellectual property. This Court *foreclosed* intent-based nullifications of intellectual property rights in *Professional Real Estate Investors*. 508 U.S. at 64. There, Columbia Pictures sued PRE for copyright infringement. PRE counterclaimed in antitrust, claiming the suit was a "sham" because, even though there was admittedly probable cause to bring it, Columbia acted with a "predatory motive." *Id.* at 56. This Court held that a "showing of malice alone" would not undermine Columbia's right to enforce its copyright. *Id.* at 63. And it rooted its decision in the policies of the copyright laws: "[T]o condition a copyright upon a demonstrated lack of anticompetitive intent would upset the notion of a copyright as a 'limited grant' of 'monopoly privileges' intended simultaneously 'to motivate the creative activity of authors' and 'to give the public appropriate access to their work product.' " *Id.* at 64 (quoting *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984)).

The arbitrariness of an intent rule is evident in the Ninth Circuit's "harmless error" ruling. The Court relied primarily on the testimony of one Kodak "parts manager" that patents were not in his mind when he decided not to supply parts to ISOs. App. 51A. But he and others also testified that the desire to protect Kodak's "very large investment in research and development" *had* motivated them. Tr.4182. The point of the intellectual property system, of course, is to protect the investment. But the Ninth Circuit drew an illusory distinction between the desire to profit from *investments* in intellectual property and intellectual property rights *per se*, and thus found (without jury input) Kodak's "defense" pretextual. App. 52A. This is utterly capricious, and has already been repudiated in the identical Xerox case. *See In re Indep. Serv. Orgs. Antitrust Litig.*, ___ F. Supp. ___, 1997 WL 805237, at *9 (Ninth Circuit's standard "makes it very difficult for a jury, a judge, or even the patent holder, to distinguish between" lawful and unlawful refusals to deal).

The Ninth Circuit erred by not deferring to the Congressional judgment about refusals to share intellectual property, by making the issue turn on case-specific business justification analysis, and especially by conditioning intellectual property rights upon the absence of anticompetitive intent. The conflict with other circuits and decisions of this Court is manifest, as is the potential to chill innovation. Before other intellectual property owners have their rights compromised through the type of mind-reading exercise that condemned Kodak, the Court should grant review.

II. The Petition Should Be Granted To Resolve Widespread Confusion On The Elements Of A Monopolistic Refusal To Deal.

Courts and commentators decry the confusing state of unilateral refusal-to-deal law. A recent article notes that while "courts have developed specialized rules for [most] distinct categories of monopolizing conduct, . . . the category . . . known as the 'unilateral refusal to deal' has not given rise to such a specific and well-structured framework of analysis." Kenneth L Glazer & Abbott B. Lipsky, Jr., *Unilateral Refusals to Deal Under Section 2 of the Sherman Act*, 63 Antitrust L.J. 749-50 (1995). The late Phillip Areeda called the "essential facilities" doctrine, as refusal-to-deal law is sometimes known, "less a doctrine than an epithet." Phillip Areeda, *Essential Facilities: An Epithet in Need of Limiting Principles*, 58 Antitrust L.J. 841 (1990). He saw no case "that provides a consistent rationale for the doctrine or that explores the social costs and benefits or the administrative costs of requiring the creator of an asset to share it with a rival." *Id.* This case illustrates the uncertainty and provides an ideal vehicle for this Court to supply the needed guidance.

A. The Requirements of Monopoly, Unavailability and Essentiality.

The notion that a monopolist might have a duty to share assets with rivals sprang from five decisions of this Court, not one of which stated objective conditions for the imposition of

such a duty.[6] Despite "its embarrassing weakness,"[7] the doctrine spread. And without clear Supreme Court guidance, the lower courts splintered. A minority – a dwindling minority until this case – adopted an "intent test" rooted in *dictum* in *United States v. Colgate*, 250 U.S. 300, 307 (1919). *See* ABA Antitrust Section, *Antitrust Law Developments (Fourth)* 271-76 (1997) ["ALD"]. There the Court spoke of the right *not* to deal with others "[i]n the absence of any purpose to create or maintain a monopoly." *Colgate*, 250 U.S. at 307. This implied that a refusal to deal "in pursuance of a purpose to monopolize" was actionable. *Southern Photo*, 273 U.S. at 375.

Most courts see that the intent test "fails to provide specific guidance for particular cases," and that objective standards are needed. *See* Glazer & Lipsky, 63 Antitrust L.J. at 755. These courts have articulated the conditions that define an objectively anticompetitive refusal to deal. *See ALD* at 276-82. The leading case is *MCI Communications v. AT&T Corp.*, 708 F.2d 1081, 1132-33 (7th Cir.), *cert. denied*, 464 U.S. 891 (1983), in which the Seventh Circuit adopted objective standards for evaluating refusal-to-deal claims. The *MCI* test, embraced in various forms by most circuits, includes elements of monopoly, unavailability, and essentiality.[8]

Monopoly and Unavailability: Most cases require plaintiff to show that defendant "possessed monopoly power over [the] essential facility" (or other competitive input), to the point that it is *not practically available* to the plaintiff elsewhere. *Laurel Sand & Gravel, Inc. v. CSX Transp., Inc.*, 924 F.2d 539, 544

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[6] *See United States v. Terminal R.R. Ass'n*, 224 U.S. 383 (1912) (a concerted refusal to deal); *Eastman Kodak Co. v. Southern Photo Materials Co.*, 273 U.S. 359 (1927); *Lorain Journal Co. v. United States*, 342 U.S. 143, 152 (1951); *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973); *Aspen Skiing*, 472 U.S. 585.

[7] Michael Boudin, *Antitrust Doctrine and the Sway of Metaphor*, 75 Geo. L.J. 395, 402 (1986).

[8] Many courts and commentators use the term "essentiality" to encompass all three of these elements. *See* IIIA Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 773b1 (1996). Kodak's proposed jury instructions separated the concept into its analytically distinct components.

(4th Cir.), *cert. denied*, 502 U.S. 814 (1991); *MCI*, 708 F.2d at 1132; *Blue Cross & Blue Shield United v. Marshfield Clinic*, 65 F.3d 1406, 1413 (7th Cir. 1995), *cert. denied*, 116 S. Ct. 1288 (1996); *Twin Lab., Inc. v. Weider Health & Fitness*, 900 F.2d 566, 568 (2d Cir. 1990) ("At the very least, a plaintiff must demonstrate that 'duplication of the facility would be economically infeasible' ") (quoting *Hecht v. Pro-Football, Inc.*, 570 F.2d 982, 992 (D.C. Cir. 1977), *cert. denied*, 436 U.S. 956 (1978)); IIIA Phillip E. Areeda & Herbert Hovenkamp, *Antitrust Law* ¶ 773, at 208 (1996) ["Areeda & Hovenkamp"] ("the alleged facility must be shown to dominate a properly defined relevant market").[9]

These are common sense requirements. The issue is whether a refusal to deal "extend[s] monopoly power from one stage of production to another." *MCI*, 708 F.2d at 1132; *Anaheim*, 955 F.2d at 1380 (whether an asset "can be and is used to improperly interfere with competition"). An input that is not monopolized carries no power to "extend." And critically, neither do inputs that are monopolized, *i.e.*, the defendant has monopoly power over them, if they are still elsewhere available to rivals.[10] Indeed, there is a particularly strong policy basis for rejecting claims based on monopolized-but-available inputs, since "requiring the defendant to share actually perpetuates the monopoly by reducing the incentive for development of realistically available competitive alternatives." Areeda & Hovenkamp ¶ 771b, at 176.[11]

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[9] Previous Ninth Circuit cases agreed. *See City of Anaheim v. Southern Cal. Edison Co.*, 955 F.2d 1373, 1380 (9th Cir. 1992) (if an item "can be reasonably or practically duplicated it is highly unlikely, even impossible, that it will be found to be essential"); *Alaska Airlines, Inc. v. United Airlines, Inc.*, 948 F.2d 536, 544 (9th Cir. 1991), *cert. denied*, 503 U.S. 977 (1992).

[10] For example, where the demand by service providers for a particular part is only a fraction of the total demand for that part, the monopolist's rivals might easily satisfy it.

[11] *See also id.* ¶ 773b2, at 203-04. In another striking inconsistency, the Ninth Circuit held that the "all parts" injunction "unnecessarily entrenches Kodak as the only parts supplier to ISOs." App. 67A.

Essentiality: Only assets "vital to the plaintiff's competitive viability," that is, its survival, ought to be subjected to forced dealing. Areeda & Hovenkamp ¶ 773b1, at 202. Otherwise Section 2 may be used to appropriate the legitimate competitive advantages from investment in superior production facilities, distribution networks, supply sources, and, as here, service capabilities. *See generally* Michael E. Porter, *Competitive Advantage* 39-40 (1985). These investments may, and indeed are intended to, capture business. But, since investments in quality capture business by catering to consumer preferences, they are not anticompetitive, and there is no antitrust justification for interfering with the natural cycle of investment-reward. "The suggestion that the price of being 'best' is to be brought under the regulatory aegis of antitrust law and stripped of your power to decide whom to do business with does not identify an interest that the antitrust laws protect." *Marshfield Clinic*, 65 F.3d at 1413.

The Circuits have defined "essentiality" in different ways. The Seventh Circuit states that an asset must be "indispensable to effective competition," *Olympia*, 797 F.2d at 379; the Second and D.C. Circuits state that an asset's denial must impose a "severe handicap," *Twin Lab.*, 900 F.2d at 568; *Hecht*, 570 F.2d at 992; and the Ninth (before this case) referred to an asset's "power to *eliminate* competition." *Alaska Airlines*, 948 F.2d at 544. But the point is the same: except in the extraordinary case where meaningful competition would otherwise cease to exist, a defendant's property rights in competitive assets it developed should not be disturbed.

B. The Ninth Circuit's "More General" Refusal-to-Deal Doctrine.

The ISOs had good reason to oppose an objective refusal-to-deal doctrine. Most (if not all) of the parts they sought were not monopolized by Kodak and were available elsewhere. Nor did Kodak's refusal to deal eliminate ISO competition. Plaintiffs admitted "[t]here never was a machine these plaintiffs couldn't fix because they didn't have a part,"

ER-223, and ISO service grew notwithstanding Kodak's policies. Plaintiffs' micrographics service revenues *doubled* in the first five years of the parts policy, ER-321, and the only significant copier plaintiff grew twenty-fold between 1986 and 1994. ER-312. There has also been successful new entry. ER-14; 37; 86; 177.

Nevertheless, the Ninth Circuit accepted plaintiffs' claim that Kodak should be liable because ISOs were "handicapped" to some unstated degree by Kodak's policies. But without objective guideposts, how can anyone know whether the lack of "an assured supply of parts" was a *sufficient* "handicap," and a handicap rooted in Kodak's monopoly power, to warrant this most extraordinary form of antitrust intervention? A careful look at the jury instructions shows that plaintiffs were required to prove *nothing* about the specific competitive inputs they demanded from Kodak.

- Plaintiffs were not required to prove that Kodak monopolized specific parts. Instead, they were allowed to claim that Kodak monopolized "all parts," which is immaterial, since even a monopolist need not share inputs it does not monopolize.[12] Worse, the Ninth Circuit held that it was sufficient if Kodak had merely close-to-monopoly power over

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[12] The court's ruling that there was a relevant antitrust market for "all parts" was plainly incorrect. The jury had been properly instructed that a relevant market is composed of reasonably interchangeable products. But no two replacement parts are interchangeable, any more than a carburetor and an oil filter are. Nonetheless, the court found that because service providers "need" all parts, there could be an all-parts "cluster market." *See United States v. Grinnell Corp.*, 384 U.S. 563, 572 (1966). This is not a proper basis for finding a cluster market, even if the issue had been tendered to the jury. *In re British Oxygen Co.*, 86 F.T.C. 1241, 1369 (1975) ("complementarity in end use . . . does not establish" cluster market), *rev'd on other grounds, BOC Int'l Ltd. v. FTC*, 557 F.2d 24 (2d Cir. 1977). Alternatively, the court held "all parts" might be a relevant "submarket." That is no better, since by definition "submarkets" exist *within* the contours of a market defined by reasonable interchangeability. *Brown Shoe Co. v. United States*, 370 U.S. 294, 325 (1962). It is clearly wrong to link non-interchangeable products into a *broader* "submarket."

"all parts." App. 20A-21A. This was the first-ever articulation of a "less-than-monopoly leveraging" doctrine, and explicitly expands the scope of liability by subjecting non-monopolists to mandatory dealing.

- Plaintiffs were not required to prove unavailability: neither that they could not get specific parts elsewhere, nor that they could not practically duplicate Kodak's warehousing operations, the "parts coffers" to which they were seeking access. What is especially remarkable is that after it affirmed the finding of liability, the Ninth Circuit removed from the permanent injunction Kodak's obligation to sell ISOs parts made by others because it is "unnecessary and anticompetitive" to force Kodak to sell parts for which "ISOs have an alternative source." App. 67A. That is exactly Kodak's point, and why plaintiffs' claims should fail as a matter of law. *See Abcor Corp. v. AM Int'l, Inc.*, 916 F.2d 924, 929 (4th Cir. 1990) (rejecting ISO access to manufacturer's parts depots).
- Plaintiffs were not required to prove essentiality, *i.e.*, that getting any or all parts from Kodak was "indispensable to effective competition." *Olympia*, 797 F.2d at 379. That bar was lowered all the way to "unnecessarily restricts or handicaps competitors," a vacuous conclusion that allowed plaintiffs to posit "less restrictive alternatives" to Kodak's policies and the ubiquitous prospect in any monopolization case of a "more competitive" market.[13]

Trial under these instructions turned on the jury's view of the legitimacy and genuineness of Kodak's business reasons for not assisting its competitors. That produced its own bizarre result: the Ninth Circuit affirmed liability even though it found Kodak had a meritorious "free-riding" objection to the demand for "all parts," App. 66A-67A, and a presumptively valid intellectual property "defense." App. 48A. Thus,

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[13] Kodak sought an instruction that the existence of less restrictive alternatives does not undermine a refusal to deal. Plaintiffs opposed on the ground that the "unnecessarily restrictive" standard requires a comparison of the defendant's business practices to available alternatives. Tr.6700. The district court rejected Kodak's instruction and, based on *Aspen*, the Ninth Circuit affirmed. App. 34A-36A.

at the end of the day, intent – the least predictable most consistently criticized basis for resolving antitrust disputes – was dispositive. *See Olympia*, 797 F.2d at 379-80.

Most troubling is the court's reliance on *Aspen* and *Kodak I*. App. 26A ("relying on *Kodak* and *Aspen Skiing*, we endorse the ISOs' theory"). This suggests other courts not only could, but must, follow the Ninth Circuit's lead. But if *Aspen* and *Kodak I* support this decision, it is solely through the unintended consequences of imprecise language. This Court could not have meant to adopt a refusal-to-deal law devoid of meaningful standards.

The Ninth Circuit divined three unintended messages from *Aspen*. The first was that because the Court discussed Aspen Skiing's refusal to deal "without referencing the essential facilities doctrine," App. 28A, it must have wanted refusals to deal analyzed without reference to the elements established in essential-facilities cases. App. 30A. This is simply wrong. *Every* Supreme Court decision addressing refusals to deal, including *Aspen*, has stressed monopoly, unavailability and essentiality. *E.g.*, *Aspen*, 472 U.S. at 594-95, 607-08 (plaintiff was unable "to develop a substitute product" and saw its market share drop from 20.5% to 11%); *Kodak I*, 504 U.S. at 458 ("ISOs were unable to obtain parts from reliable sources"); *Otter Tail*, 410 U.S. at 377 (defendant controlling natural monopoly foreclosed plaintiff "from obtaining electric power from outside sources of supply"); *Lorain Journal*, 342 U.S. at 152 (99% monopoly made newspaper "an indispensable medium of advertising"); *Southern Photo*, 273 U.S. at 377 (plaintiff "otherwise . . . could not purchase or secure the goods necessary in the conduct of its business").

Second, the court found that *Aspen* requires monopolists to justify all "change[s] [in] established pattern[s] of distribution to the detriment of competitors." App. 30A (citing 472 U.S. at 603).[14] But *Aspen* does not require justifications for

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[14] This, regrettably, has been evident in several cases interpreting *Aspen*, and has led to another split of authority. *Compare Olympia*, 797

refusing to share *non-essential or otherwise available* inputs. Essentiality and unavailability are "initial condition[s] that must be satisfied before a court can even contemplate forcing a defendant to provide access." Areeda & Hovenkamp ¶ 773b, at 201. They were proven in *Aspen*. And change, which is to be expected whenever a monopolist is tested by entry, is not a substitute for proof of unavailability and essentiality. Responding to emerging competition by refusing to share superior but duplicable competitive resources does not offend antitrust policy, even if it involves change.

Third, and most importantly, the court found that by approving the jury instructions used in *Aspen*, 472 U.S. at 597, this Court intended to excuse plaintiffs from proving essentiality and unavailability. App. 30A. Many commentators have criticized the generality of those instructions.[15] But until this case, few if any courts thought this Court was endorsing them for *all* refusal-to-deal cases, and *to the exclusion* of more specific, objective instructions.[16] One would not see the dozens of post-*Aspen* cases applying the *MCI* criteria if that were so. The Ninth Circuit's expansive reading of *Aspen* is therefore a major development.

Perhaps the Ninth Circuit was right, and this Court wants refusals to deal condemned without objective analysis, and

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F.2d at 376 (a monopolist does not incur antitrust liability by withdrawing a "helping hand"), *with Key Enters. of Del., Inc. v. Venice Hosp.*, 919 F.2d 1550, 1558 (11th Cir. 1990) (change requires defendant to come forward with valid business reasons), *cert. denied*, 511 U.S. 1126 (1994), *and SCFC ILC, Inc. v. Visa USA, Inc.*, 36 F.3d 958, 971 (10th Cir. 1994) (stressing change), *cert. denied*, 515 U.S. 1152 (1995).

[15] *See* Areeda & Hovenkamp ¶ 772, at 190 ("virtually any act of a monopolist might be condemned under the jury instruction that *Aspen* approved"); Frank H. Easterbrook, *On Identifying Exclusionary Conduct*, 61 Notre Dame L. Rev. 972, 978 (1986) ("A fog-bound instruction of the sort given in *Aspen* ensures that confusion and random results will emerge").

[16] In fact, though lengthy, the discussion of the jury instructions in *Aspen* is entirely *dicta*, since the petitioner did not "criticize the trial court's instructions" regarding monopoly conduct. 472 U.S. at 596.

merely on a jury's view of what was "necessary" and "intended." But we doubt it. It seems much more plausible that the Ninth Circuit's decision is the unintended result of *Aspen*'s and *Kodak I*'s less disciplined passages. The clear conflict with so many post-*Aspen* cases supports this view. But if this does explain this decision, then we respectfully submit that this Court bears a special obligation to review this case. It is intolerable that such an empty refusal-to-deal doctrine should proliferate in the name of this Court.

III. The Petition Should Be Granted To Clarify The Conditions Under Which A Derivative Aftermarket May Be Deemed A Relevant Antitrust Market.

The holding that made *Kodak I* the most significant and controversial antitrust decision in decades was that "market imperfections," in particular switching and information costs, can support a finding of market or monopoly power over the service of a single manufacturer's products, even if the manufacturer lacks power over the primary product. *See* 504 U.S. at 460, 465-79. Because the decision threatens practically all manufacturers of durable goods with monopolization claims, it has drawn extensive criticism.[17] Judge Bork's comments are typical:

> The majority's style of reasoning can be applied to all antitrust questions, and it is capable of driving rational economic analysis once more from the law. It is always possible to posit "market imperfections" that may result in markets working contrary to the predictions of economics. Those "imperfections" are typically, as they were in *Kodak*, both

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[17] *See, e.g.*, Daniel J. Gifford, *The Damaging Impact of the Eastman Kodak Precedent Upon Product Competition: Antitrust Law in Need of Correction*, 72 Wash. U. L.Q. 1507 (1994); Thomas C. Arthur, *The Costly Quest for Perfect Competition: Kodak and Nonstructural Market Power*, 69 N.Y.U. L. Rev. 1 (1994); Herbert Hovenkamp, *Market Power in Aftermarkets: Antitrust Policy and the Kodak Case*, 40 U.C.L.A. L. Rev. 1447 (1993); Benjamin Klein, *Market Power in Antitrust: Economic Analysis After Kodak*, 3 Sup. Ct. Econ. Rev. 43 (1993).

> ingenious and imaginary. The result of reintroducing them into the law is lengthy trials on baseless claims and with unpredictable outcomes.

Robert H. Bork, *The Antitrust Paradox: A Policy at War with Itself* 438 (revised ed. 1993).

Much of the criticism of *Kodak I* stems from the fact that it is not clear whether the decision is procedural, about the standards for summary judgment, or substantive, in that the Court intended to embrace widespread findings of aftermarket monopolies based on proof of "market imperfections."[18] But the overwhelming majority of commentators have focused on the potentially boundless ability of the decision to support aftermarket monopoly findings, and have all but pled for limits. *E.g.*, X Areeda & Hovenkamp ¶ 1740; Salil Kumar, Comment, *Parts and Service Included: An Information-Centered Approach to Kodak and the Problem of Aftermarket Monopolies,* 62 U. Chi. L. Rev. 1521 (1995); Gifford, 72 Wash. U. L.Q. at 1535 ("the opinion fails to satisfy that standard of clarity which the legal profession has a right to expect of all Supreme Court antitrust decisions"); Carl Shapiro, *Aftermarkets and Consumer Welfare: Making Sense of Kodak,* 63 Antitrust L.J. 483 (1995).

The reach and ramifications of *Kodak I* have indeed proven to be vast. The "torrent" of aftermarket litigation that the dissent predicted (504 U.S. at 489) did in fact ensue, as dozens of private plaintiffs sued single-brand "monopolists." *See* App. 104E-105E. And *Kodak I*'s impact goes far beyond relations between equipment manufacturers and ISOs. There has been a spate of antitrust cases involving franchising, with plaintiffs basing claims on monopolies over the likes of pizza

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[18] *See* Daniel E. Lazaroff, *Reflections on Eastman Kodak Co. v. Image Technical Services, Inc.: Continued Confusion Regarding Tying Arrangements and Antitrust Jurisprudence*, 69 Wash. L. Rev. 101, 151 (1994) ("Arguably the most critical uncertainty engendered by *Kodak* is whether the case is properly viewed as merely a procedural decision regarding the propriety of summary judgment rather than as a far-reaching, substantive ruling that changes the face of antitrust jurisprudence."); X Areeda & Hovenkamp, *supra* note 8, ¶ 1733f2, at 35-37.

dough, paper napkins and soap;[19] arguments based on *Kodak I* are transforming health care antitrust litigation;[20] and numerous "mundane commercial case[s]" now include *Kodak I*-inspired antitrust claims. *E.g., Digital Equip. Corp. v. Uniq Digital Tech., Inc.*, 73 F.3d 756, 762-63 (7th Cir. 1996).

As "*Kodak* claims" increase, the lower courts are divided on how broadly this Court intended to permit aftermarket monopoly claims. One line sees *Kodak I* as a general rebuke to the widely accepted economic theory that competitive foremarkets protect consumers from aftermarket exploitation. Under this view, the existence of switching and information costs alone points powerfully toward a finding of a relevant aftermarket, and there is no requirement of so-called "opportunism," *i.e.*, conduct, such as an unexpected price increase, that makes consumers worse off than they expected to be when choosing the defendant's products over alternatives. Examples of this school are *Virtual Maintenance, Inc. v. Prime Computer, Inc.*, 11 F.3d 660, 664 (6th Cir. 1993), *cert. dismissed*, 512 U.S. 1216 (1994) where an aftermarket defined as "the sale of software revisions and support of software necessary to do business with Ford Motor Company" was approved, and *Collins v. International Dairy Queen*, 980 F. Supp. at 1254, where evidence of information and switching costs supported a market of "food products and supplies to Dairy Queen franchisees."

Other courts have limited *Kodak I* by stressing *exactly what the ISOs stressed when they were in this Court.* It is, in

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[19] *See, e.g., Queen City Pizza, Inc. v. Domino's Pizza, Inc.*, 124 F.3d 430, 439-41 (3d Cir. 1997); *Valley Prods. Co., Inc. v. Landmark, Div. of Hosp. Franchise, Inc.*, 128 F.3d 398, 407 (6th Cir. 1997); *Collins v. International Dairy Queen, Inc.*, 980 F. Supp. 1252 (M.D. Ga. 1997); *Wilson v. Mobil Oil*, ___ F. Supp. ___, 1997 WL 675326, at *11 (E.D. La. 1997).

[20] *See* James F. Ponsoldt, *Refusals to Deal in "Locked-in" Health Care Markets Under Section 2 of the Sherman Act After Eastman Kodak Co. v. Image Technical Services*, 1995 Utah L. Rev. 503 (1995).

substance, the economic concept of installed-base opportunism.[21]

Plaintiffs claimed in *Kodak I* that Kodak had exploited market imperfections by first unexpectedly changing its policies toward ISOs from cooperation to exclusion, and then surprising "captive Kodak equipment owners who bought equipment prior to 1985" with an unanticipated service-price increase. Respondents' 9/20/91 Supreme Court Brief at 20-22; ER-1-4. This was the theory the Court held made "economic sense," and the alleged price increase was critical to the Court's conclusion. *See* 504 U.S. at 465 (Kodak "boosted service prices"), 469 (Kodak had to overcome "evidence of increased prices"), 472 ("Service prices have risen for Kodak customers"). Indeed, Professor Kauper has said that "[t]he Court's analysis begins, and in a sense ends" with the price increase, for it put Kodak in "the unenviable position of countering what the Court accepted . . . as evidence of adverse price and output effects with a purely theoretical" argument. Kauper, 61 Antitrust L.J. at 355.

Sophisticated courts picked up on this and, beginning with *Lee v. Life Insurance Co. of North America*, 23 F.3d 14, 20 (1st Cir.), *cert. denied*, 513 U.S. 964 (1994), stressed "the *timing* of the 'lock-in' at issue in *Kodak*." *See also Digital Equip. Corp.*, 73 F.3d at 762-63; *Queen City*, 124 F.3d at 440 (2-1 decision affirming dismissal of complaint). In *Digital*, Judge Easterbrook honed in specifically on the alleged service-price increase: "The Court held that evidence in the record that prices had increased prevented a grant of summary judgment. * * * The material dispute that called for a trial was whether the change in policy enabled Kodak to extract supra-competitive prices from customers who had already

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[21] *See Shapiro*, 63 Antitrust L.J. at 487, 504. The economist who developed the theory has identified it as installed-base opportunism. *See Post-Chicago Analysis After Kodak: Interview With Professor Steven C. Salop*, Antitrust, Fall/Winter 1992, at 20-21.

purchased its machines." 73 F.3d at 762. Since an opportunistic price increase was lacking, Digital received summary judgment. *Id.* at 763.

In *PSI Repair Service, Inc. v. Honeywell, Inc.*, 104 F.3d 811 (6th Cir.), *cert. denied*, 117 S. Ct. 2434 (1997), a case essentially identical to this one was dismissed because there was no opportunistic policy change. Honeywell would not sell circuit boards to ISOs that serviced its industrial control equipment. But it had never done so, and it had been generally "forthcoming about its pricing structure and service policies." *Id.* at 822. Based on those two facts, the court affirmed summary judgment. *Id.* It held that "the change in policy in *Kodak* was the crucial factor in the Court's decision," since "the evil condemned by the Court" was the exploitation of the installed base subsequent to that change. *Id.* at 820. Without an opportunistic policy change, there is, accordingly, no relevant aftermarket. *Id.* at 820.

There is no evidence that Kodak raised prices opportunistically after either changing its micrographics parts policy or rejecting the ISOs' demand for an "assured supply" of copier parts. To repeat:

- Kodak never cut off the supply of any micrographics parts. Its 1985 policy change was prospective only, and therefore did not disrupt the ability of ISOs to service the *existing* installed base.

- Kodak never changed copier parts policies – no matter what the Ninth Circuit says. App. 4A. Kodak chose not to sell parts to copier ISOs the first time it was an issue, and when there were only one or two copier ISOs in the country.[22] There is no evidence that pre-1986 consumers bought Kodak copiers expecting ISO service.

- Kodak did not increase service prices opportunistically. Plaintiffs' economist admitted that Kodak "customers were not suddenly confronted with a price increase" after Kodak decided not to be the ISOs' assured source of

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[22] These one or two ISOs bought a few copier parts before there was any policy. This could not have affected overall consumer expectations.

supply. Tr.1621. The core allegation of the *Kodak I* analysis was entirely false.

The district court nonetheless denied Kodak's motion for a new trial, and the Ninth Circuit affirmed in a paragraph. App. 32A-33A. Erroneously applying a "plain error" standard of review,[23] the court said it was enough that plaintiffs had presented evidence that: (1) Kodak had high service-market shares in servicing its own machines, which virtually all manufacturers do, and which begs the question whether those are *relevant* shares; (2) ISOs were adversely affected by the refusal to deal, which would be true whether or not Kodak had monopoly power; (3) Kodak customers experienced switching and information costs, which durable equipment customers always do;[24] (4) "Kodak's market share in the equipment markets further limits choices by consumers," an unexplained and unexplainable statement since the court elsewhere recognized the "strong competition" in those markets; and (5) that "Kodak earns supracompetitive profits," a wholly

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[23] The Ninth Circuit held that Kodak waived any appeal based on the denial of its motion for judgment as a matter of law, because Kodak failed to raise the aftermarket monopoly issue at the close of evidence. App. 32A. Kodak disagrees there was waiver, but it need not concern this Court. Kodak timely moved for a new trial, and timely appealed the denial of that motion. Thus the court should have considered whether the district court abused its discretion by upholding the verdict where there was no evidence on a key element of plaintiffs' case. *E.g., American Bearing Co., Inc. v. Litton Indus., Inc.*, 729 F.2d 943, 948-49 (3d Cir.), *cert. denied*, 469 U.S. 854 (1984). In any event, it is plain error to uphold a jury finding of aftermarket monopoly on the record in this case.

[24] There is no doubt that Kodak's aftermarket prices are "generally known" to consumers, which all members of the *Kodak I* Court agreed should result in judgment for Kodak. 504 U.S. at 477 n.24 (majority opinion), 492 (Scalia, J., dissenting). The great majority of Kodak's customers – 88% of copier purchasers and over two thirds of micrographics purchasers – are repeat purchasers, and thus have personal experience that helps them estimate lifecycle prices. ER-133; 152; 191; 315; 317. Further, Kodak routinely provides consumers "total cost of ownership" data in sales proposals. ER-104; 117; 133-134; 153-154.

unsupported statement that is immaterial if Kodak's profits did not result from opportunism.[25] App. 33A.

However, the court simply excluded from the analysis the most important point: "whether the change in policy enabled Kodak to extract supra-competitive prices from customers who had already purchased its machines." *Digital*, 73 F.3d at 763. The result, again, is that limiting principles have been excised from the law, and ubiquitous characteristics of real-world markets for durable goods lead to findings of monopoly.

At a minimum, this decision conflicts with *PSI*, *Digital*, *Lee*, and *Queen City*. But this is no ordinary circuit split, because the minority position reflected in this decision is on remand from *Kodak I*. That surely gives it heightened visibility, and possibly persuasiveness. It should not be the last word in this historic case.

CONCLUSION

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

DONN P. PICKETT
Counsel of Record
DANIEL M. WALL
ALFRED C. PFEIFFER, JR.
McCUTCHEN, DOYLE, BROWN & ENERSEN, LLP
Three Embarcadero Center
San Francisco, California 94111

Attorneys for Petitioner

HERBERT HOVENKAMP
University of Iowa
College of Law
407 Boyd Law Building
University of Iowa
Iowa City, Iowa 52242
Of Counsel

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[25] The only evidence of these alleged profits was testimony about Kodak's *gross margins* on service and systems. There is, however, no useful correlation between gross margins and monopoly power. *See Blue Cross & Blue Shield United v. Marshfield Clinic*, 65 F.3d 1406, 1412 (7th Cir. 1995), *cert. denied*, 116 S. Ct. 1288 (1996); Dennis W. Carlton & Jeffrey M. Perloff, *Modern Industrial Organization* 342 (2d ed. 1994).

Volume 1 of 2

FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

IMAGE TECHNICAL SERVICES, INC.; J-E-S-P COMPANY, INC.; SHIELDS BUSINESS MACHINES, INC.; MICRO-GRAPHIC SERVICES, INC.; OMNI MICRO-GRAPHIC SERVICES, INC.; ATLANTA GENERAL MICROFILM CO., INC.; DATEK LTD; B.C.S. TECHNICAL SERVICES, INC.; CPO LTD, INC.; ADVANCED SYSTEMS SERVICE, INC.; AMTECH EQUIPMENT MAINTENANCE, INC., *Plaintiffs-Appellees,* v. EASTMAN KODAK CO., *Defendant-Appellant.*	Nos. 96-15293 96-15296 D.C. No. CV-87-01686-AWT OPINION

Appeal from the United States District Court
for the Northern District of California
A. Wallace Tashima, District Judge, Presiding

Argued and Submitted
September 19, 1996 – San Francisco, California

Filed August 26, 1997

Before: Robert R. Beezer and David R. Thompson, Circuit Judges, Helen W. Gillmor, District Judge.**

Opinion by Judge Beezer; Partial Concurrence and Partial Dissent by Judge Gillmor

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COUNSEL

Donn P. Pickett and Daniel M. Wall, McCutchen, Doyle, Brown & Enersen, San Francisco, California, for the defendant-appellant.

Maxwell M. Blecher, Blecher & Collins, Los Angeles, California, for the plaintiffs-appellees.

OPINION

BEEZER, Circuit Judge:

Plaintiffs-Appellees Image Technical Services, and ten other independent service organizations ("ISOs") that service Kodak photocopiers and micrographic equipment sued the Eastman Kodak Co. ("Kodak") for violations of the Sherman Act. The ISOs alleged that Kodak used its monopoly in the market for Kodak photocopier and micrographic parts to create a second monopoly in the equipment service markets. A jury verdict awarded treble damages totaling $71.8 million. The district court denied Kodak's post trial motions and entered a ten year permanent injunction requiring Kodak to sell "all parts" to ISOs. Kodak filed a timely appeal, challenging the jury's verdict, the ISOs' evidence, the jury instructions, the

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** The Honorable Helen W. Gillmor, United States District Judge for the District of Hawaii, sitting by designation.

damage awards and the permanent injunction. Kodak also seeks reversal on the basis of an alleged biased juror.

This appeal raises questions relating to the application of antitrust principles upon a finding that a monopolist unilaterally refused to deal with competitors. We also address overlapping patent and copyright issues and their significance in the antitrust context.

We have jurisdiction pursuant to 28 U.S.C. § 1291 and we affirm in part, reverse in part and remand with instructions to amend the injunction.

I

Kodak manufactures, sells and services high volume photocopiers and micrographic (or microfilm) equipment. Competition in these markets is strong. In the photocopier market Kodak's competitors include Xerox, IBM and Canon. Kodak's competitors in the micrographics market include Minolta, Bell & Howell and 3M. Despite comparable products in these markets, Kodak's equipment is distinctive. Although Kodak equipment may perform similar functions to that of its competitors, Kodak's parts are not interchangeable with parts used in other manufacturers' equipment.

Kodak sells and installs replacement parts for its equipment. Kodak competes with ISOs in these markets. Kodak has ready access to all parts necessary for repair services because it manufactures many of the parts used in its equipment and purchases the remaining necessary parts from independent original-equipment manufacturers. In the service market, Kodak repairs at least 80%

of the machines it manufactures. ISOs began servicing Kodak equipment in the early 1980's, and have provided cheaper and better service at times, according to some customers. ISOs obtain parts for repair service from a variety of sources, including, at one time, Kodak.

As ISOs grew more competitive, Kodak began restricting access to its photocopier and micrographic parts. In 1985, Kodak stopped selling copier parts to ISOs, and in 1986, Kodak halted sales of micrographic parts to ISOs. Additionally, Kodak secured agreements from their contracted original-equipment manufacturers not to sell parts to ISOs. These parts restrictions limited the ISOs' ability to compete in the service market for Kodak machines. Competition in the service market requires that service providers have ready access to all parts.

Kodak offers annual or multi-year service contracts to its customers. Service providers generally contract with equipment owners through multi-year service contracts. ISOs claim that they were unable to provide similar contracts because they lack a reliable supply of parts. Some ISOs contend that the parts shortage forced them out of business.

In 1987, the ISOs filed this action against Kodak, seeking damages and injunctive relief for violations of the Sherman Act. The ISOs claimed that Kodak both: (1) unlawfully tied the sale of service for Kodak machines with the sale of parts in violation of § 1 of the Sherman Act, and (2) monopolized or attempted to monopolize the sale of service for Kodak machines in violation of § 2 of the Sherman Act.

Kodak moved for summary judgment prior to discovery. The district court allowed brief discovery and then granted summary judgment in Kodak's favor. *Image Technical Serv., Inc. v. Eastman Kodak Co.*, 1988 WL 156332 (N.D. Cal.). We reversed. *Image Technical Serv., Inc. v. Eastman Kodak Co.*, 903 F.2d 612 (9th Cir. 1990).

Kodak appealed to the Supreme Court, which affirmed the denial of summary judgment. The Court held that the record disclosed sufficient factual disputes to survive summary judgment on both the § 1 and § 2 claims. *Eastman Kodak Co. v. Image Technical Serv., Inc.*, 504 U.S. 451 (1992). The Supreme Court also held that Kodak's lack of market power in the market for high volume photocopiers and micrographic equipment did not preclude, as a matter of law, the possibility of market power in the derivative aftermarkets for parts and service. *Id.* at 477. The Court recognized that resolution of other key issues required a more complete record. The Court concluded:

> In the end, of course, Kodak's arguments may prove to be correct. It may be that its parts, service, and equipment are components of one unified market, or that the equipment market does discipline the aftermarkets so that all three are priced competitively overall, or that any anticompetitive effects of Kodak's behavior are outweighed by its competitive effects. But we cannot reach these conclusions as a matter of law on a record this sparse.

504 U.S. at 486.

After remand, the case proceeded to trial in the district court. Before closing arguments, the ISOs withdrew

their § 1 tying and conspiracy claims. The remaining § 2 attempted monopolization and monopolization claims were submitted to the jury. A unanimous verdict awarded damages to the ISO's totaling $71.8 million after trebling.[1] Ten ISOs were awarded damages covering lost service profits in the amount of $12,172,900 (before trebling) and six ISOs were awarded damages covering lost profits for used equipment sales totaling $11,775,400 (before trebling).

After accepting the verdict, the district court crafted a ten year injunction requiring Kodak to sell all parts to ISOs on "reasonable and nondiscriminatory terms and prices." The injunction required Kodak to sell: (1) all parts for Kodak equipment; (2) all parts described in Kodak's Parts Lists; (3) all parts of supply items that are field replaceable by Kodak technicians; (4) all service manuals and price lists; and (5) all tools or devices "essential to servicing Kodak equipment."

II

Section 2 of the Sherman Act prohibits monopolies, attempts to form monopolies, as well as combinations and conspiracies to do so. 15 U.S.C. § 2.[2] The ISOs presented evidence in support of two § 2 theories: attempted

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[1] The district court excused two jurors during deliberations and thus only ten jurors deliberated on the final verdict. One juror was dismissed, over Kodak's objection, for disrupting the jury's deliberations. A second juror was dismissed by agreement of both parties and the district court.

[2] Section 2 of the Sherman Act reads in relevant part: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other persons, to monopolize

monopolization and monopolization. They alleged, and the jury concluded, that Kodak used its monopoly over Kodak photocopier and micrographic parts to attempt to create and actually create a second monopoly over the service markets.

To prevail on a § 2 attempt claim, the ISOs were required to establish: "(1) a specific intent to control prices or destroy competition; (2) predatory or anticompetitive conduct directed at accomplishing that purpose; (3) a dangerous probability of achieving 'monopoly power,' and (4) causal antitrust injury." *Rebel Oil Co., Inc. v. Atlantic Richfield, Co.*, 51 F.3d 1421, 1434 (9th Cir.) (citing *McGlinchy v. Shell Chem. Co.*, 845 F.2d 802, 811 (9th Cir. 1988)), *cert. denied*, 116 S. Ct. 515 (1995). The requirements of a § 2 monopolization claim are similar, differing primarily in the requisite intent and the necessary level of monopoly power. *See California Computer Products, Inc. v. International Business Machines Corp.*, 613 F.2d 727, 736-37 (9th Cir. 1979). To prevail on a § 2 monopoly claim the ISOs were required to prove that Kodak: (1) possessed monopoly power in the relevant market and (2) willfully acquired or maintained that power. *Kodak*, 504 U.S. at 481 (citing *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966)). Section 2 plaintiffs must also establish antitrust injury. *See Cost Management Services, Inc. v. Washington Natural Gas Co.*, 99 F.3d 937, 949 (9th Cir. 1996).

Kodak primarily attacks the ISOs' monopoly claim because success would likely upset the "attempt" verdict

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any part of the trade or commerce . . . [commits a felony]." 15 U.S.C. § 2.

as well. We now address Kodak's appeal against the background of the Supreme Court's opinion in *Kodak* and the extensive record developed at trial.

A. Market Power

Kodak first attacks the ISOs' monopoly power theory and its supporting evidence. Monopoly power is "the power to control prices or exclude competition." *Grinnell*, 384 U.S. at 571 (quoting *United States v. E.I. du Pont De Nemours & Co.*, 351 U.S. 377, 391 (1956)). As noted, § 2 monopoly claims require a showing of monopoly power, commonly referred to as market power. *See Cost Management Services*, 99 F.3d at 950 n.15. Market power can be proven by either direct or circumstantial evidence. *Rebel Oil*, 51 F.3d 1421, 1434. The ISOs offered proof of market power by both means. We hold that there is sufficient proof of market power by circumstantial evidence. We need not consider the ISOs' direct evidence.

To demonstrate market power by circumstantial evidence, a plaintiff must: "(1) define the relevant market, (2) show that the defendant owns a dominant share of that market, and (3) show that there are significant barriers to entry and show that existing competitors lack the capacity to increase their output in the short run." *Id.* at 1434 (citations omitted). We review these requirements in turn.

1.

We begin with the relevant market determination. The relevant market is the field in which meaningful

competition is said to exist. *See United States v. Continental Can Co.*, 378 U.S. 441, 449 (1964). Generally, the relevant market is defined in terms of product and geography. *See Rebel Oil*, 51 F.3d at 1434; *see, e.g., Oahu Gas Service, Inc. v. Pacific Resources, Inc.*, 838 F.2d 360, 364-65 (9th Cir. 1988) (all propane sales in Hawaii). In *Rebel Oil Co., Inc. v. Atlantic Richfield Co.*, we defined "market" as the group of sellers or producers who have the "actual or potential ability to deprive each other of significant levels of business." 51 F.3d at 1434 (quoting *Thurman Industries, Inc. v. Pay 'N Pak Stores, Inc.*, 875 F.2d 1369, 1374 (9th Cir. 1989)). Without a proper definition of the relevant market, it is impossible to determine a party's influence over that market. *Id.* Ultimately what constitutes a relevant market is a factual determination for the jury. *Id.* at 1435.

In *Kodak*, the Supreme Court noted two guiding principles pertinent to the relevant market definition here. First, the Court held that service and parts could constitute separate markets. *Kodak*, 504 U.S. at 462-63, 481-82. Second, the Supreme Court held that a single brand could constitute a separate market. *Id.* at 482. Thus, as to the market for Kodak parts, the ISOs proceeded on the theory that Kodak held monopolies over two relevant parts markets: the Kodak photocopier parts market and the Kodak micrographic parts market. Both markets, the ISOs argued, consisted of the entirety of necessary Kodak parts for that field of equipment.

Kodak disagrees and argues that the district court erred in denying its renewed motion for judgment as a matter of law, because the ISOs' "all parts" market theory, upon which the jury relied to define the market, has no support in existing antitrust precedent. We review de

novo the district court's denial of Kodak's renewed motion of judgment as a matter of law. *Acosta v. City & County of San Francisco*, 83 F.3d 1143, 1145 (9th Cir.), *cert. denied*, 117 S. Ct. 514 (1996). We would be required to reverse the district court's denial of Kodak's motion if the evidence, construed in the light most favorable to the ISO's, permits only one reasonable conclusion, and that conclusion is contrary to that of the jury's. *Id.*

On appeal and in their renewed motion for judgment as a matter of law, Kodak proposes a segmented parts market. It argues that because no two parts are interchangeable, the relevant markets for parts consist of the market for each individual part for Kodak photocopiers and each single part for Kodak micrographics equipment. Under Kodak's theory there are not two relevant parts markets, but thousands of individual "part" markets. Kodak contends that the ISOs should have been required to demonstrate that they could not obtain particular non-patented parts and that the failure to obtain that particular part resulted in a Kodak monopoly over service. We reject Kodak's market definition.

Kodak's market definition focuses exclusively on the interchangeability of the parts although ignoring the "commercial realities" faced by ISOs and end users. *Kodak*, 504 U.S. at 482. In *Kodak*, the Supreme Court reasoned that:

> Because service and parts for Kodak equipment are not interchangeable with other manufacturers' service and parts, the relevant market from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines.

Id. The Court also recognized however, that the market definition here could "be determined only after a factual inquiry into the 'commercial realities' faced by consumers." *Id.* (citing *Grinnell*, 384 U.S. at 572). Consideration of the "commercial realities" in the markets for Kodak parts compels the use of an "all parts" market theory. The "commercial reality" faced by service providers and equipment owners is that a service provider must have ready access to all parts to compete in the service market. As the relevant market for service "from the Kodak equipment owner's perspective is composed of only those companies that service Kodak machines," *id.*, the relevant market for parts from the equipment owners' and service providers' perspective is composed of "all parts" that are designed to meet Kodak photocopier and micrographics equipment specifications. The makers of these parts "if unified by a monopolist or a hypothetical cartel, would have market power in dealing with" ISOs and end users. *Rebel Oil*, 51 F.3d at 1436 (quoting Areeda & Hovenkamp, *Antitrust Law*, ¶ 518.1b, at 534 (Supp. 1993)) (defining relevant "market").

Kodak argues that service providers' need for all parts is not pertinent to the relevant market determination. Kodak, citing *In re British Oxygen Co.*, 86 F.T.C. 1241 (1975), *rev'd on other grounds, BOC Intern., Ltd. v. F.T. C.*, 557 F.2d 24 (2nd Cir. 1977), analogizes to the automotive supplies market, arguing that the fact that automobile owners need tires, oil and gasoline does not mean that these elements constitute a single relevant market. The market for Kodak parts is distinguishable. First, Kodak parts, unlike tires, oil or gasoline, are not interchangeable with parts for other brands or equipment: the market for

Kodak parts is a highly limited and specialized one. Second, the commercial reality for auto parts consumers does not necessitate that a retailer of tires, for example, also sell either gasoline or oil, or both. In the market for Kodak parts, a ready supply of all parts is needed to satisfy service contracts. *See, e.g., Grinnell,* 384 U.S. at 572 ("Central station companies recognize that to compete effectively, they must offer all or nearly all types of service."). The ISOs argue that through its anticompetitive conduct Kodak has ensured that it will possess the only inventory of all parts for Kodak high volume photocopiers and micrographic equipment.

Kodak's argument that the Supreme Court did not squarely address the relevant market issue presented here is well taken. However, nothing in the *Kodak* opinion indicates that the Court envisaged any relevant market other than "all parts." The Court analyzed three markets for photocopiers and micrographic equipment: equipment, parts and service. The Court referred to Kodak's "parts monopoly," 504 U.S. at 483, not its "parts monopolies," and nothing in the opinion suggests that the Court labored under the misconception that all parts *were* interchangeable.

Other factors compel our acceptance of an "all parts" market. In *Brown Shoe Co. v. United States,* the Supreme Court teaches that the boundaries of a relevant market:

> may be determined by examining such practical indicia as industry or public recognition of the submarket as a separate economic entity, the product's peculiar characteristics and uses, unique production facilities, distinct customers,

> distinct prices, sensitivity to price changes, and specialized vendors.

370 U.S. 294, 325 (1962) (defining "line of commerce" for the purposes of § 7 of the Clayton Act).[3] The *Brown Shoe* factors applied here, particularly the lack of consumer recognition of individual part markets, the unique and specialized nature of the equipment and the singular use of "all parts" to service Kodak equipment, weigh in favor of an "all parts" market. Kodak does not point to record evidence which supports a contrary conclusion.

The Supreme Court, relying on *Brown Shoe*, has held that groups of non-interchangeable products and services may be aggregated to form a single relevant market. *See Grinnell*, 384 U.S. at 572. In *United States v. Philadelphia National Bank*, for example, the Supreme Court coupled various banking services, including checking accounts, trust administration and credit functions, under the category of "commercial banking" in defining the relevant "line of commerce" under the Clayton Act. 374 U.S. 321, 356 (1963). In *JBL Enterprises, Inc. v. Jhirmack Enterprises*, we likewise endorsed a relevant market defined as "the sale of beauty products" to "beauty salons and other professional outlets." 698 F.2d 1011, 1016 (9th Cir.) (quoting *JBL Enterprises, Inc. v. Jhirmack Enterprises*, 509 F. Supp. 357, 369 (N.D. Cal. 1981)). In that holding, we rejected the plaintiff's efforts to define the relevant market more narrowly as relating to specific beauty products

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[3] The Supreme Court has held that its precedent relating to the "line of commerce" under § 7 of the Clayton Act applies to market definition under the "part of commerce" language in the Sherman Act. *Grinnell*, 384 U.S. at 573.

at either the wholesale or the retail level. *Id.* at 1016. We commented that a "cluster approach is appropriate where the product package is significantly different from, and appeals to buyers on a different basis from, the individual products considered separately." *Id.* at 1016-17. The market for Kodak parts is similarly amenable to this "cluster approach." Kodak service customers view service providers with the assumption that such providers will be able to obtain any part necessary to complete the needed repairs.

Kodak argues that the "cluster market" theory is inapplicable because in the market for Kodak parts no single competitor or manufacturer produces all the parts for Kodak photocopiers or micrographic equipment and thus "all parts" is not a relevant market.[4] This argument is unpersuasive. Both ISOs and Kodak inventory and sell parts to self-service customers. Even if this were not true, that all providers do not offer the same "package" or cluster of goods or services is irrelevant. In *United States v. Grinnell Corp.*, the Supreme Court held that the market for central alarm station services constituted a relevant market even though not all firms offered the same menu of alarm services. 384 U.S. at 572-73, n.6. The Supreme

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[4] Kodak also argues, citing *American Bearing Co., Inc. v. Litton Indus.*, 729 F.2d 943, 950 (3d Cir. 1984), that the ISOs waived any theory regarding "cluster markets" by failing to submit a jury instruction covering this "exception" to the interchangeability requirement. In *American Bearing*, the Third Circuit rejected the appellant's attempt to argue a different market theory on appeal. The ISOs do not posit a different market theory here; they continue to rely on their "all parts" theory.

Court noted: "[w]e see no barrier to combining in a single market a number of different products or services where that combination reflects commercial realities." *Id.* at 572.

Kodak next contends, citing *United States v. AT & T*, 524 F. Supp. 1336 (D.D.C. 1981), that because it makes some of the parts exclusively and does not make some parts at all, disparate market shares preclude aggregation of "all parts" for the purpose of the parts market. The district court in *AT&T*, held that:

> [i]f aggregating markets leads to the appearance of a causal link between defendants' anticompetitive conduct and their monopoly power which disappears the moment the markets are treated separately, then clearly the aggregation would be improper.

Id. at 1376 (citing 3 Areeda & Turner, ¶ 627b, 84). The *AT&T* court did not preclude aggregation of the markets in question because the anticompetitive conduct at issue transcended individual products; the anticompetitive conduct at issue extended to the "whole equipment spectrum." *Id.* The district court concluded that "[i]n the interests of avoiding duplicative evidence and useless overburdening of the plaintiff" it was not necessary to require the plaintiff to prove the defendant's anticompetitive conduct in relation to "each piece of telecommunications equipment without close substitutes." *Id.* Disaggregation is also unnecessary here because Kodak either manufactures or otherwise controls a monopoly share in most of the necessary parts. *See Brown Shoe*, 370 U.S. at 327-28 (aggregating shares in similar submarkets because "whether considered separately or together, the picture . . . is the same.").

Aggregating the individual parts into a single "all parts" market for photocopiers and a single "all parts" market for micrographics equipment is also necessary for administrative convenience. Kodak photocopiers and micrographic equipment require thousands of individual parts and a supply of all parts is necessary in order to fulfill service contracts. To require the ISOs to prove that Kodak has monopoly power in thousands of markets would be both unduly burdensome and pointless. *See id.* at 327 ("Further division does not aid us. . . . "). Moreover, aggregation does not prejudice Kodak because service providers need all parts to compete in the service market, and Kodak's 100% monopoly power over the 30% of parts it manufactures suggests the same potential for control of the service market under an individual part market theory that the jury found using the "all parts" market. Kodak "can point to no advantage it would enjoy were finer divisions . . . employed." *Id.*

Last, Kodak suggests that measuring market share in an "all parts" market could prove significantly over or under inclusive. Kodak argues that a firm believed to be monopolist could have a high aggregate share of the market that disguises the availability of alternative sources, or its seemingly small market share could conceal monopoly power over one crucial part. This argument, however, only demonstrates why the Supreme Court in *Kodak* emphasized the factual nature of the relevant market inquiry. 504 U.S. at 482. Each case is burdened with its unique facts that affect the parameters of the relevant market. Kodak has both undisputed 100% monopoly shares for certain parts and an alleged monopoly share in the entire parts market.

2.

Next we turn to the second monopoly power element: market share. A plaintiff relying on circumstantial evidence to establish a § 2 monopolization claim must show that the defendant owned a "dominant share" of the market. *Rebel Oil,* 51 F.3d at 1434. Calculation of the market share allows for a proper understanding of the defendant's influence and relative power in the relevant market. A dominant share of the market often carries with it the power to control output across the market, and thereby control prices. *Id.* at 1437. Courts generally require a 65% market share to establish a prima facie case of market power. *See American Tobacco Co. v. United States,* 328 U.S. 781, 797 (1946).

In *Kodak,* the Supreme Court stated that Kodak's possession of monopoly power was "easily resolved." 504 U.S. at 481. The Court relied on its earlier discussion of the § 1 claim, where it held that the ISOs had "presented a triable claim that Kodak ha[d] the 'power to control prices or exclude competition' in service and parts." *Id.* Noting that "monopoly power" under § 2 requires "something greater than market power under § 1," the Court held that the "evidence that Kodak controls nearly 100% of the parts market and 80% to 95% of the service market, with no readily available substitutes . . . sufficient to survive summary judgment. . . . " *Id.*

Kodak challenges the district court's market share instruction and the ISOs' market share evidence. Specifically, Kodak objects to the calculation of its market

share by the aggregation of the percentage of parts manufactured by Kodak with the percentage of parts manufactured by original-equipment manufacturers. At trial the ISOs asserted that Kodak controls the entire parts market for its high volume photocopier and micrographics equipment by refusing to sell the parts it manufactures, 30% of the total parts needed, and by imposing restrictions on both the independent original-equipment manufacturers and end users. Kodak argues that because the ISOs withdrew their conspiracy claim they are precluded from adding the shares held by the allegedly restricted original-equipment manufacturers to Kodak's market share.

We need not consider Kodak's challenge to Jury Instruction No. 27, the controlling instruction, as Kodak failed to object to that instruction and thus did not preserve this argument for appeal. Failure to object to an instruction waives review. *Hammer v. Gross*, 932 F.2d 842, 847-48 (9th Cir. 1991) (no plain error exception exists in civil cases in this circuit). Instruction No. 27 states in relevant part:

> Among other factors [indicative of monopoly power], you may wish to consider . . . whether Kodak restricts, directly or indirectly, the ability of its supplier to sell to others. . . .

Instruction No. 27 allows for the aggregation of Kodak's market share with the market shares of the restricted original-equipment manufacturers. Kodak also agreed to Instruction No. 26, which required the jury to find a 65% market share in order to find monopoly power.

We review Kodak's sufficiency of the evidence claim under the controlling instruction. We review a jury's verdict for substantial evidence. *Davis v. Mason County*, 927 F.2d 1473, 1486 (9th Cir. 1991). Substantial evidence is such relevant evidence as reasonable minds might accept as adequate to support a conclusion even if it is possible to draw two inconsistent conclusions from the evidence. *Maynard v. City of San Jose*, 37 F.3d 1396, 1404 (9th Cir. 1994). We hold that substantial evidence supports the jury's finding that Kodak controlled a monopoly share in the market for Kodak parts through: (1) its own manufacture of Kodak parts (30%); (2) its control of original-equipment manufacturers' sale of Kodak parts to ISOs through tooling clauses (20-25%), engineering clauses and other proprietary arrangements (exact percentage unknown); and (3) its discouragement of self-servicing and resale of parts by end users. The ISOs provided substantial evidence that the dearth and poor quality of used parts and replacement parts, not manufactured or designed by Kodak, created a shortage of available substitutes.

Kodak maintains, unpersuasively, that the ISOs failed to prove that parts were absolutely unavailable. According to Kodak, for each ISO that could not get a part, another could, and consequently, the ISO's anecdotal evidence was insufficient to demonstrate market share. The record proves otherwise. The record contains substantial evidence showing that parts were virtually unavailable for post-1986 models and often difficult to obtain for older models. Kodak itself admitted that the availability of parts was "limited." That one ISO acquired parts by buying Kodak equipment and stripping them for parts, as

Kodak contends, does little to rebut Kodak's monopoly power in the parts markets. The ISOs were not required to prove that Kodak had total control over every new and used part.

The record also establishes the following: Alan Conklin, who supervised the acquisition of parts for Kodak's photocopier and micrographics equipment, testified that Kodak manufactured roughly 30% of its own parts. Kodak argues that other manufacturers also produced substitutes for these parts, but its reference to the record merely shows that original-equipment manufacturers could, if Kodak chose, make almost all of Kodak's parts. Kodak also acknowledges that suppliers would not sell "proprietary" parts and Conklin testified that all parts which original-equipment manufactures produce for Kodak must meet specifications. The jury could rationally conclude that the oft-used term "proprietary" covered most if not all parts made for Kodak. ISO owners and employees testified that they could not purchase parts from independent original-equipment manufacturers. Several testified that they could not obtain any parts for post-1986 photocopiers and micrographic equipment. Kodak's argument that its tooling and engineering clauses were routine and legal is irrelevant. Legal actions, when taken by a monopolist, may give rise to liability if anticompetitive. *See Greyhound Computer v. International Business Machines*, 559 F.2d 488, 499 (9th Cir. 1977).

Kodak correctly argues that the ISOs never precisely quantified Kodak's parts market shares. In his closing, counsel for the ISOs based Kodak's market share on its 30% manufacturing share, its 20% share controlled by tooling clauses and an unquantified share of production

which was restricted by engineering clauses. Nonetheless, given the state of the record, a reasonable jury could conclude that Kodak had a share of the markets for photocopier and micrographic equipment parts of 65% or more. Moreover, even if the ISOs only succeeded in proving a share near 50%, this would suffice to support a jury finding of market power for the purposes of the ISOs' attempted monopolization claim. *Rebel Oil*, 51 F.3d at 1438, n.10 (declining to adopt bright line 50% threshold for attempt). In *Rebel Oil*, we held that a 44% market share demonstrates market power "if entry barriers are high and competitors are unable to expand their output in response to supracompetitive pricing." *Id.*

3.

The third and final monopoly power factor concerns barriers to market entry and barriers to expansion.[5] *Rebel Oil*, 51 F.3d at 1439. A § 2 plaintiff, establishing monopoly power by circumstantial evidence, must establish more than just market share. Even a 100% monopolist may not exploit its monopoly power in a market without entry barriers. *See Los Angeles Land Co. v. Brunswick Corp.*, 6 F.3d 1422, 1427 (9th Cir. 1993) (citation omitted). A § 2 plaintiff must show that new competitors face high market barriers to entry and that current competitors lack the ability

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[5] Contrary to the ISOs' argument, the *Kodak* Court's criticism of simultaneous entry barriers to parts and service did not lessen the requirements for showing market power; rather, the Court's statement foreclosed Kodak's argument that prevention of ISO free-riding on its investment in parts justified its actions as a matter of law. 504 U.S. at 485.

to expand their output to challenge a monopolist's high prices. *Rebel Oil*, 51 F.3d at 1439. Barriers to entry "must be capable of constraining the normal operation of the market to the extent that the problem is unlikely to be self-correcting." *Id.* 51 F.3d at 1439 (citing *United States v. Syufy Enterprises*, 903 F.2d 659, 663 (9th Cir. 1990)). Common entry barriers include: patents or other legal licenses, control of essential or superior resources, entrenched buyer preferences, high capital entry costs and economies of scale. *Id.*

Kodak argues that the ISOs failed to prove meaningful entry barriers. The record proves otherwise. Kodak has 220 patents and controls its designs and tools, brand name power and manufacturing capability. Kodak controls original-equipment manufacturers through various contract arrangements. Kodak has consistently maintained a high share of the service market. These factors together with the economies of scale, support a finding of high barriers to entry by new manufacturers and to increased output by established suppliers. *See Reazin v. Blue Cross and Blue Shield of Kansas, Inc.*, 899 F.2d 951, 968 (10th Cir. 1990) ("Entry barriers may include high capital costs or regulatory or legal requirements such as patents or licenses.").

Kodak fails to rebut this evidence. Kodak focuses on the testimony of an ISO witness who stated: "[y]ou could get in my business tomorrow if you had the expertise." That witness, however, also identified capital and consumer demand as other significant barriers to market entry. Although some new entry was possible, the record reflects substantial evidence of entry barriers sufficient to prevent Kodak's monopoly share from self-correcting. *See*

Rebel Oil, 51 F.3d at 1440-41 ("Barriers may still be 'significant' if the market is unable to correct itself despite the entry of small rivals."). Kodak claims that the same witness testified that he could make any part if ISOs servicing a total of 2,000 machines would buy the part. The witness actually only agreed that he would "supply more Kodak parts," if there were 2,000 machines needing them. We reject Kodak's sufficiency of the evidence claim.

B. Use of Monopoly Power

The second element of a § 2 monopoly claim, the "conduct" element, is the use of monopoly power "to foreclose competition, to gain a competitive advantage, or to destroy a competitor." *Kodak*, 504 U.S. at 482-83 (quoting *United States v. Griffith*, 334 U.S. 100, 107 (1948)). The ISOs proceeded under a "monopoly leveraging" theory, alleging that Kodak used its monopoly over Kodak parts to gain or attempt to gain a monopoly over the service of Kodak equipment. The Supreme Court endorsed this theory in *Kodak* noting: "If Kodak adopted its parts and service policies as part of a scheme of willful acquisition or maintenance of monopoly power, it will have violated § 2." *Id.* (citations omitted). "Willful acquisition" or "maintenance of monopoly power" involves "exclusionary conduct," not power gained "from growth or development as a consequence of a superior product, business acumen, or historic accident." *Grinnell*, 384 U.S. at 570-71.

Kodak attacks the district court's monopoly conduct jury instructions as well as the ISOs' evidence establishing Kodak's exclusionary conduct. A challenge to a jury instruction on the grounds that it misstates the relevant

elements is a question of law reviewed de novo. *Caballero v. Concord*, 956 F.2d 204, 206 (9th Cir. 1992). As noted, the jury's verdict will stand if supported by substantial evidence.

1.

Kodak's chief complaint with the monopoly power jury instructions lies with Jury Instruction No. 29. That Instruction, entitled "Monopolization – Monopoly Conduct," states in relevant part:

> [a] company with monopoly power in a relevant market has no general duty to cooperate with its business rivals and may refuse to deal with them or with their customers if valid business reasons exist for such refusal. It is unlawful, however, for a monopolist to engage in conduct, including refusals to deal, *that unnecessarily excludes or handicaps competitors in order to maintain a monopoly.*

(emphasis added). Kodak argues that this instruction lacks objective standards and improperly includes within the prohibited activities a lawful monopolist's "aggressive" competition.

Specifically, Kodak challenges Instruction No. 29's "unnecessarily excludes or handicaps competitors" language. Kodak says that this language is based on a form of "monopoly leveraging" that we previously rejected in *Alaska Airlines, Inc. v. United Airlines, Inc.*, 948 F.2d 536, 543 (9th Cir. 1991). In *Alaska Airlines* we did reject the Second Circuit's holding in *Berkey Photo, Inc. v. Eastman Kodak Co.*, 603 F.2d 293 (2d Cir. 1979). *Berkey Photo* recognized liability under § 2 of the Sherman Act on a theory

of monopoly leveraging involving a firm which used "its monopoly power in one market to gain a competitive advantage in another, albeit without an attempt to monopolize the second market." 603 F.2d at 275. In *Alaska Airlines,* we held that "monopoly leveraging" could not exist as a basis for § 2 liability in the absence of the defendant using its monopoly in one market to monopolize or attempt to monopolize the downstream market. 948 F.2d at 547. We characterized *Berkey Photo*'s downstream monopoly requirement – "to gain a competitive advantage" – as too "loose." *Alaska Airlines,* 948 F.2d at 546.

Kodak accuses the district court of incorporating *Berkey Photo*'s repudiated language into the court's instructions. We disagree. Instruction No. 29 required the jury to find that Kodak's monopoly conduct be undertaken "in order to maintain a monopoly" in the downstream market. *Berkey Photo*'s watered-down standard does not go this far. Instruction No. 29 makes clear that the monopolies at issue are Kodak's alleged service monopolies and the Instruction required the jury to find that Kodak acted in furtherance of maintaining its service monopolies. Instruction No. 29's "unnecessarily excludes or handicaps competitors" language does not come from *Berkey Photo,* but from the jury instruction endorsed by the Supreme Court in *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.,* 472 U.S. 585, 597, 611 (1985).

2.

Kodak also objects to the attempted monopolization and monopolization jury instructions on the grounds that they fail to describe adequately the "essential facilities"

doctrine, which Kodak contends is the controlling law in unilateral refusal to deal cases. Kodak asserts that this doctrine is the sole legal theory which could require Kodak to sell "all parts." Kodak argues that the essential facilities doctrine required the jury to find that Kodak's parts monopoly carries "the power to eliminate competition."

Kodak's challenge raises a novel issue: whether a monopolist is liable under § 2 of the Sherman Act for an anticompetitive refusal to deal only under an "essential facilities" theory, that is, only when the refusal involves something "essential" to the survival of competitors. As noted, Kodak would answer affirmatively; we reject this theory. Instead, relying on *Kodak* and *Aspen Skiing*, we endorse the ISOs' theory that § 2 of the Sherman Act prohibits a monopolist from refusing to deal in order to create or maintain a monopoly absent a legitimate business justification. We need not apply the essential facilities doctrine.

Section 2 of the Sherman Act prohibits a monopolist's unilateral action, like Kodak's refusal to deal, if that conduct harms the competitive process in the absence of a legitimate business justification. *See Kodak*, 504 U.S. at 483 n.32 (citing *Aspen Skiing*, 472 U.S. at 602). Unilateral refusals to deal often concern an "essential" facility. *See Otter Trail Power Co. v. United States*, 410 U.S. 366 (1973). In *Alaska Airlines*, we defined the essential facilities doctrine, generally, as: imposing "liability when one firm, which controls an essential facility, denies a second firm reasonable access to a product or service that the second firm must obtain to compete with the first." 948 F.2d 542. A facility is "essential" if it is otherwise unavailable and

cannot be "reasonably or practically duplicated." *Anaheim v. Southern California Edison Co.*, 955 F.2d 1373, 1380 (9th Cir. 1992).

In *Otter Trail Power Co. v. United States*, the Supreme Court held that the defendant, Otter Trail Power, used its electrical utility equipment, an "essential facility," to gain monopoly power over all commercial electrical services. 410 U.S. at 377-79. Otter Trail Power generally sold both wholesale and retail electrical services. Later it refused to provide only wholesale electrical services to several municipalities which intended to supply retail electrical services to the ultimate customers. The Court held that Otter Trail Power's refusal to supply "only wholesale" services eliminated competition in the downstream market for retail services as Otter Trail Power owned the only "facility" capable of supplying these services. The Court held that such "exclusionary" conduct violated § 2 of the Sherman Act. *Id.*

In *Alaska Airlines*, we interpreted *Otter Trail* as requiring plaintiffs proceeding under the "essential facilities" doctrine to establish that the controlled facility "carries with it the power to eliminate competition in the downstream market." 948 F.2d at 544; *see, e.g., Twin Laboratories, Inv. v. Weider Health & Fitness*, 900 F.2d 566, 569 (2d Cir. 1990) ("A successful 'essential facilities' plaintiff must prove that denial of access has caused it 'severe handicap' [in the market]."). Kodak faults the district court for failing to instruct the jury that to be liable under § 2, Kodak's exclusionary conduct must have "eliminated competition" in the downstream service market.

The Supreme Court has never explicitly held that a § 2 refusal to deal claim can only be established under the "essential facilities" rubric. In *Kodak* the Supreme Court never discussed the essential facilities doctrine; nor do any of the cases cited by the Court employ the essential facilities analysis. *See* 504 U.S. at 483 (citing *Grinnell Corp.*, 384 U.S. at 570-71; *United States v. Aluminum Co. of America*, 148 F.2d 416, 432 (2d Cir. 1945), and *Aspen Skiing*, 472 U.S. at 600-605). Rather in discussing a firm's right to "refuse to deal with its competitors," the Supreme Court noted, citing *Aspen Skiing*, that this right "exists only if there are legitimate competitive reasons for the refusal." *Kodak*, 504 U.S. at 483 n.32.

The Supreme Court considered a refusal to deal claim in *Aspen Skiing* without referencing the essential facilities doctrine. *Aspen Skiing* involved a § 2 challenge by one Aspen ski resort against the owner of the remaining three ski resorts in Aspen, a monopolist in the recreational ski market. The plaintiff proceeded under an essential facilities theory alleging that a previously available "all-Aspen" ski pass, granting the holder access to all four Aspen ski areas, was an essential facility. The jury agreed and awarded damages. The Tenth Circuit affirmed. *Aspen Highlands Skiing Corp. v. Aspen Skiing Co.*, 738 F.2d 1509, 1517-23 (10th Cir. 1984). The Supreme Court also affirmed, but did not rely on the "essential facilities" doctrine. *Aspen Skiing*, 472 U.S. at 611 n.44 ("Given our conclusion that the evidence amply supports the verdict under the instructions as given by the trial court, we find it unnecessary to consider the possible relevance of the 'essential facilities' doctrine. . . . ").

The Supreme Court began its analysis in *Aspen Skiing* with a discussion of the "right to refuse to deal," a right the Court characterized as highly valued but not "unqualified." *Id.* at 601. The Court, quoting extensively from *Lorain Journal Co. v. United States*, 342 U.S. 143, 155 (1951), held that the right to refuse to deal was "neither absolute nor exempt from regulation" and when used "as a purposeful means of monopolizing interstate commerce" the exercise of that right violates the Sherman Act. *Aspen Skiing*, 472 U.S. at 602. Thus "the long recognized right . . . [to] freely [ ] exercise [one's] own independent discretion as to parties with whom he will deal" does not violate the Sherman Act *"[i]n the absence of any purpose to create or maintain a monopoly."* *Id.* (quoting *Lorain Journal* 342 U.S. at 155) (emphasis in the original) (citations omitted). In *Aspen Skiing* the Court noted that a defendant's refusal to deal was evidence of its' [sic] intent "relevant to the question whether the challenged conduct is fairly characterized as 'exclusionary' or 'anti-competitive' – to use the words in the trial court's instructions – or 'predatory,' to use a word that scholars seem to favor." *Id.*

Next, the Court reasoned that a monopolist's refusal to deal was not limited to the specific facts of *Lorain Journal*, but also covered the *Aspen Skiing* defendant-monopolist's election "to make an important change in a pattern of distribution that had originated in a competitive market and had persisted for several years." *Id.* at 603. The Court noted that competitors in other markets continued to use interchangeable lift tickets and thus inferred that "such tickets satisfy consumer demand in free competitive markets." *Id.* The Court concluded that

although such conduct was not "necessarily anticompetitive," the posture of the case and the strength of the evidence presented compelled the Court to uphold the jury's finding of liability. The Court noted that the challenged instructions correctly required the jury to distinguish "between practices which tend to exclude or restrict competition on the one hand, and the success of a business which reflects only a superior product, a well-run business, or luck, on the other." *Id.* Other instructions properly informed the jury that the defendant's refusal to deal "does not violate Section 2 if valid business reasons exist for that refusal." *Id.* at 605. By ignoring the essential facilities doctrine in *Aspen Skiing*, the Supreme Court endorsed the application of traditional § 2 principles to unilateral refusal to deal cases.

Jury Instructions Nos. 28 and 29 here covered the requirements set forth in *Aspen Skiing*.[6] Like the Supreme Court in *Aspen Skiing*, we are faced with a situation in which a monopolist made a conscious choice to change an established pattern of distribution to the detriment of competitors. *Id.* at 603. Although the service market prior

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[6] Jury Instruction No. 28 states in relevant part:

> Exclusionary conduct refers to practices that unreasonably or unnecessarily impede fair competition; that is, conduct that impairs the efforts of others to compete for customers in an unnecessarily restrictive way. Such conduct does not refer to ordinary means of competition, like offering better products or services, exercising superior skill or business judgment, utilizing more efficient technology, or exercising natural competitive advantages.

to Kodak's parts policy had not "originated in a competitive market and persisted for several years," *id.*, the ISO service market had existed for three years and was growing rapidly before Kodak implemented its parts policy. Our case is factually distinguishable from *Aspen Skiing* in several respects: here there are no readily comparable competitive markets; ISO profits were not halved after the imposition of the anticompetitive policies; and there are two markets at issue, rather than only one. Further, unlike most essential facilities cases and this case, *Aspen Skiing* did not involve the effects of a supplier's refusal to deal with its customers in order to control a downstream market. Notwithstanding these distinctions, both the analysis in *Aspen Skiing* and *Kodak* footnote 32 suggest that *Aspen Skiing* applies here. Like the First Circuit in *Data General v. Grumman Systems Support*, 36 F.3d 1147 (1st Cir. 1994), we believe the Supreme Court, in *Aspen Skiing*, endorsed a more general application of § 2 principles to refusal to deal cases. *See Data General*, 36 F.3d at 1183-84 (plaintiff alleging § 2 refusal to deal claim "need not tailor its argument to a preexisting 'category' of unilateral refusals to deal."). The district court's Jury Instruction No. 29 was proper.

3.

Kodak next attacks the jury's verdict on the grounds that the ISOs failed to present a theory of aftermarket monopoly that makes economic sense as required by *Kodak*. Kodak contends that at trial the ISOs dropped the economic theory they advanced before the Supreme Court, and under their new theory they failed to prove

that the equipment market does not discipline the aftermarkets in such a way as to prevent monopoly power.

We review Kodak's claim only for plain error because Kodak failed to move for judgment as a matter of law under Federal Rule of Civil Procedure Rule 50(a) at the close of the evidence. *Cabrales v. County of Los Angeles*, 864 F.2d 1454, 1459 (9th Cir. 1988), *vacated on other grounds*, 490 U.S. 1087 (1989). We strictly adhere to the requirements of Rule 50(b), which prohibit a party from moving for a judgment as a matter of law after the jury's verdict unless that motion was first presented at the close of evidence. *Sloman v. Tadlock*, 21 F.3d 1462, 1473 (9th Cir. 1994).

Kodak, relying on out-of-circuit authority, argues that a party need not move for judgment as a matter of law when such a motion would be futile. *See Pittsburgh-Des Moines Steel Co. v. Brookhaven Manor Water Co.*, 532 F.2d 572, 577 (7th Cir. 1976); *Albrecht v. Herald Co.*, 452 F.2d 124, 127 (8th Cir. 1971). We have explicitly rejected the Seventh Circuit's subjective approach to Rule 50. *Farley Transp. Co., Inc. v. Santa Fe Trail Transp. Co.*, 786 F.2d 1342, 1346 n.2 (9th Cir. 1985). Further, the district court's denial of Kodak's motion for summary judgment on this issue did not render a Rule 50(a) motion futile because, as Kodak repeatedly argues, the ISOs did not present the same evidence at trial that both the Supreme Court and district court considered at summary judgment.

The record discloses that the ISOs presented sufficient evidence to establish Kodak's monopoly power in the service market. Under the plain error standard we inquire no further. We reverse under plain error only if

"there is an absolute absence of evidence to support the jury's verdict." *Cabrales*, 864 F.2d at 1459. The record reflects the following: Kodak has a 95% share of the Kodak high volume photocopier service market and an 88% share of the Kodak micrographic service market. Several ISOs withdrew from the Kodak service market or substantially restricted their service due to the lack of available parts, although other ISOs made substantial profits and continued to grow steadily. Some ISOs could not obtain any parts for newer models, indicating that the current ISO service market may last only as long as the pre-1986 models survive. Kodak equipment customers experienced the "lock-in" and information imperfections as described in *Kodak*, 504 U.S. at 477 ("there is a question of fact whether information costs and switching costs foil the simple assumption that the equipment and service markets act as pure complements to one another."). Kodak's market share in the equipment market further limits choices by consumers. Finally, although Kodak criticizes their methodology, the ISOs presented evidence that Kodak earns supracompetitive profits in service, and overall. Substantial evidence supports the jury's verdict on the issue of Kodak's service market monopoly.

III

Our conclusion that the ISOs have shown that Kodak has both attained monopoly power and exercised exclusionary conduct does not end our inquiry. Kodak's conduct may not be actionable if supported by a legitimate business justification. When a legitimate business justification supports a monopolist's exclusionary conduct, that conduct does not violate § 2 of the Sherman Act. *See*

Kodak, 504 U.S. at 483; *Oahu Gas*, 838 F.2d at 368. A plaintiff may rebut an asserted business justification by demonstrating either that the justification does not legitimately promote competition or that the justification is pretextual. *See Kodak*, 504 U.S. at 483-84 (citing *Kodak*, 903 F.2d at 618). Kodak asserts that the protection of its patented and copyrighted parts is a valid business justification for its anticompetitive conduct and argues that the district court's erroneous jury instructions made it impossible for the jury to properly consider this justification. Kodak attacks the district court's failure both to provide a "less restrictive alternatives" instruction, and to instruct as to Kodak's intellectual property rights. Jury instructions "must be formulated so that they fairly and adequately cover the issues presented, correctly state the law, and are not misleading." *Knapp v. Ernst & Whinney*, 90 F.3d 1431, 1437 (9th Cir. 1996), *cert. denied*, 117 S.Ct. 952 (1997). To the extent that Kodak alleges error in the district court's formulation of the instructions, we consider the instructions as a whole and apply an abuse of discretion standard to determine if they are "misleading or inadequate." *Id.* (citation omitted). To the extent that Kodak argues that the district court misstated the elements the ISOs were required to prove at trial, we review the instructions de novo. *Id.*

A. Least Restrictive Alternatives

Kodak argues that the district court erred by failing to instruct the jury that it was not to consider whether Kodak could have accomplished its business objectives through less restrictive alternatives. Kodak also questions the sufficiency of the ISOs' pretext evidence. The ISOs

counter that Kodak waived its arguments regarding business justifications by failing to move for judgment as a matter of law. We disagree. To the extent that Kodak's arguments focus on the jury instructions and not the general sufficiency of the evidence, Rule 50(b) does not apply.

Kodak argues that monopolization, unlike tying, does not require consideration of whether the defendant could have achieved its aims through less restrictive alternatives. Kodak, however, cites no authority mandating an instruction requiring that the jury not consider "less restrictive alternatives." Kodak's argument rests on the combination of the district court's refusal to use Kodak's requested language and Kodak's disagreement with the "unnecessarily excludes or handicaps competitors" language of Jury Instruction Nos. 29 and 34. As a result of this combination, Kodak argues, the ISOs were able to argue a "necessity" standard and ask the jury to weight [sic] what Kodak did "against the alternatives."

As discussed above, the "unnecessarily excluded or handicaps" language was permissible under *Aspen Skiing*. Moreover, the district court's instruction here, Instruction No. 28, was very similar to both the language proposed by Kodak and the language endorsed by the Supreme Court in *Aspen Skiing*, 472 U.S. at 597. Jury Instruction No. 28 defines "exclusionary conduct" as impairing "the efforts of others to compete for customers in an unnecessarily restrictive way." The district court also instructed that: (1) Kodak could refuse to deal if valid business reasons existed and (2) the jury could not "second guess whether Kodak's business judgment was wise or correct in retrospect." Under these instructions the jury could not

consider "less restrictive alternatives" without "second guessing" Kodak and thus violating the jury instructions. We presume that the jury followed the court's instructions. *United States v. Alston*, 974 F.2d 1206, 1210 (9th Cir. 1992).

Kodak next argues that the ISOs' primary arguments refuting Kodak's business justifications were "less restrictive alternative" arguments. Kodak focuses on the ISOs' attack on Kodak's quality control justification as one such "less restrictive alternative" argument. Kodak argues that because "the legitimacy of quality control is beyond reproach," the ISOs were forced to establish this justification, and others, were pretextual. The ISOs did establish pretext: they attacked Kodak's quality control justification on the grounds that it was pretextual, not because it was the least restrictive alternative. Counsel for the ISOs argued that Kodak's quality control justification was "a joke" because ISOs do not interfere with the quality of Kodak's service. We hold that the district court did not err in its instructions.

Kodak has waived its insufficiency of evidence claim on this issue by failing to move for judgment as a matter of law at trial. We review only for plain error. *Cabrales*, 864 F.2d at 1459. The ISOs' evidence suffices to support the jury's rejection of Kodak's business justifications, as the record reflects evidence of pretext. The ISOs presented evidence that: (1) Kodak adopted its parts policy only after an ISO won a contract with the State of California; (2) Kodak allowed its own customers to service their machines; (3) Kodak customers could distinguish breakdowns due to poor service from breakdowns due to parts; and (4) many customers preferred ISO service.

B. Intellectual Property Rights

Kodak also attacks the district court's business justifications instructions for their failure to properly detail Kodak's intellectual property rights. Kodak argues that the court failed to instruct the jury that Kodak's numerous patents and copyrights provide a legitimate business justification for Kodak's alleged exclusionary conduct. Kodak holds 220 valid United States patents covering 65 parts for its high volume photocopiers and micrographics equipment, and all Kodak diagnostic software and service software are copyrighted. The jury instructions do not afford Kodak any "rights" or "privileges" based on its patents and copyrights: all parts are treated the same. In Jury Instruction No. 37, the court told the jury:

> [i]f you find that Kodak engaged in monopolization or attempted monopolization by misuse of its alleged parts monopoly . . . then the fact that some of the replacement parts are patented or copyrighted does not provide Kodak with a defense against any of those antitrust claims.

In Jury Instruction No. 28, the court stated, over Kodak's objection, that:

> [s]uch [exclusionary] conduct does not refer to ordinary means of competition, like offering better products or services, exercising superior skill or business judgment, utilizing more efficient technology, or exercising natural competitive advantages.

Kodak proposed to include "exercising lawful patents and copyrights" amongst the list of non-exclusionary

conduct in Instruction No. 28, but the district court rejected that language.

Kodak's challenge raises unresolved questions concerning the relationship between federal antitrust, copyright and patent laws. In particular we must determine the significance of a monopolist's unilateral refusal to sell or license a patented or copyrighted product in the context of a § 2 monopolization claim based upon monopoly leveraging. This is a question of first impression.

1.

We first identify the general principles of antitrust, copyright and patent law as we must ultimately harmonize these statutory schemes in responding to Kodak's challenge.

Antitrust law seeks to promote and protect a competitive marketplace for the benefit of the public. *See Standard Oil Co. v. United States*, 221 U.S. 1, 58 (1911); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981). The Sherman Act, the relevant antitrust law here, prohibits efforts both to restrain trade by combination or conspiracy and the acquisition or maintenance of a monopoly by exclusionary conduct. 15 U.S.C. §§ 1, 2.

Patent law seeks to protect inventions, while inducing their introduction into the market for public benefit. *SCM Corp.*, 645 F.2d at 1203. Patent laws "reward the inventor with the power to exclude others from making, using or selling [a patented] invention throughout the

United States." *Id.*[7] Meanwhile, the public benefits both from the faster introduction of inventions, and the resulting increase in market competition. Legally, a patent amounts to a permissible monopoly over the protected work. *See Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969). Patent laws "are in *pari materia* with the antitrust laws and modify them *pro tanto* (as far as the patent laws go)." *Simpson v. Union Oil Co.*, 377 U.S. 13, 24 (1964).

Federal copyright law "secure[s] a fair return for an author's creative labor" in the short run, while ultimately seeking "to stimulate artistic creativity for the general public good." *Twentieth Century Music Corp. v. Aiken*, 422

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[7] In 1988, Congress amended the patent laws to provide that "[n]o patent owner otherwise entitled to relief for infringement . . . of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of . . . (4) [the patent owner's] refus[al] to license or use any rights to the patent." 35 U.S.C. § 271(d) (1988).

The First Circuit has observed that this amendment "may even herald the prohibition of all antitrust claims . . . premised on a refusal to license a patent." *Data General*, 36 F.3d at 1187 (citing Richard Calkins, "Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims," 38 Drake L.Rev. 175, 192-97 (1988-89)). The amended statutory language does not compel this result, and Calkins and other commentators agree that § 271(d)(4) merely codified existing law. *See* Calkins, 38 Drake L.Rev. at 197; 5 Donald S. Chisum, *Patents*, § 19.04[1] at 19-295 (1992) ("The 'refusal to license' provision received little attention in the floor statements, primarily because the provision was intended to codify existing law."). The amendment does, however, indicate congressional intent to protect the core patent right of exclusion.

U.S. 151, 156 (1975) (internal quotations omitted). The Copyright Act grants to the copyright owner the exclusive right to distribute the protected work. 17 U.S.C. § 106. This right encompasses the right to "refrain from vending or licensing," as the owner may "content [itself] with simply exercising the right to exclude others from using [its] property." *Data General*, 36 F.3d at 1186 (quoting *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)); *see Stewart v. Abend*, 495 U.S. 207, 228-29 (1990) ("nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright.")

Clearly the antitrust, copyright and patent laws both overlap and, in certain situations, seem to conflict. This is not a new revelation. We have previously noted the "obvious tension" between the patent and antitrust laws: "[o]ne body of law creates and protects monopoly power while the other seeks to proscribe it." *United States v. Westinghouse Electric Corp.*, 648 F.2d 642, 646 (9th Cir. 1981) (citations omitted). Similarly, tension exists between the antitrust and copyright laws. *See Data General*, 36 F.3d at 1187.

Two principles have emerged regarding the interplay between these laws: (1) neither patent nor copyright holders are immune from antitrust liability, and (2) patent and copyright holders may refuse to sell or license protected work. First, as to antitrust liability, case law supports the proposition that a holder of a patent or copyright violates the antitrust laws by "concerted and contractual behavior that threatens competition." *Id.* at 1185 n.63 (citation omitted). In *Kodak*, the Supreme Court noted:

> [we have] held many times that power gained through some natural advantage such as a patent, copyright, or business acumen can give rise to liability if 'a seller exploits his dominant position in one market to expand his empire into the next.'

504 U.S. at 480 n.29 (quoting *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 611 (1953) and citing *Northern Pacific R. Co. v. United States*, 356 U.S. 1 (1958); *United States v. Paramount Pictures, Inc.*, 334 U.S. 131 (1948); *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458, 463 (1938)).

Case law also supports the right of a patent or copyright holder to refuse to sell or license protected work. *See Westinghouse*, 648 F.2d at 647. In *United States v. Westinghouse Electric Corp.*, we held that "[t]he right to license [a] patent, exclusively or otherwise, or to refuse to license at all, is the 'untrammeled right' of the patentee." *Id.* (quoting *Cataphote Corporation v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 774 (9th Cir. 1971)); *see Zenith Radio Corp.*, 395 U.S. at 135 (the patent holder has the "right to invoke the State's power to prevent others from utilizing [the] discovery without [the patent holder's] consent") (citations omitted); *Ticom Inc. v. Electronic Data Systems Corp.*, 902 F.Supp. 741, 743 (E.D. Mich.1995) ("Under patent and copyright law, [the owner] may not be compelled to license . . . to anyone.") (citations omitted).

2.

Next we lay out the problem presented here. The Supreme Court touched on this question in *Kodak*, i.e., the effect to be given a monopolist's unilateral refusal to sell

or license a patented or copyrighted product in the context of a § 2 monopoly leveraging claim. In footnote 29, previously discussed, the Supreme Court in *Kodak* refutes the argument that the possession by a manufacturer of "inherent power" in the market for its parts "should immunize [that manufacturer] from the antitrust laws in another market." 504 U.S. at 480 n.29. The Court stated that a monopolist who acquires a dominant position in one market through patents and copyrights may violate § 2 if the monopolist exploits that dominant position to enhance a monopoly in another market. Although footnote 29 appears in the Court's discussion of the § 1 tying claim, the § 2 discussion frequently refers back to the § 1 discussion, and the Court's statement that "exploit[ing][a] dominant position in one market to expand [the] empire into the next" is broad enough to cover monopoly leveraging under § 2. *Id.*[8] By responding

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[8] The cases cited by the Supreme Court also support this conclusion. In *Times-Picayune*, the Court addressed both a § 1 tying claim and a § 2 monopolization claim. 345 U.S. at 611. Regarding the § 1 claim, the Court found insufficient power in the relevant market to support "dominance." *Id.* Later in addressing the § 2 claim, the Supreme Court held that "[t]his case does not demonstrate an attempt by a monopolist established in one area to nose into a second market. . . . " *Id.* at 626.

Also relevant to the relationship between § 1 and § 2, the Court in *Leitch Manufacturing* held that it made no difference that the defendant had not expanded its monopoly "by contract." 302 U.S. at 463. The Court held:

> [T]he owner of the patent monopoly, ignoring the limitation 'inherent in the patent grant,' sought by its method of doing business to extend the monopoly to unpatented material

in this fashion, the Court in *Kodak* supposed that intellectual property rights do not confer an absolute immunity from antitrust claims.

The *Kodak* Court, however, did not specifically address the question of antitrust liability based upon a unilateral refusal to deal in a patented or copyrighted product. Kodak and its amicus correctly indicate that the right of exclusive dealing is reserved from antitrust liability. We find no reported case in which a court has imposed antitrust liability for a unilateral refusal to sell or license a patent or copyright.[9] Courts do not generally view a monopolist's unilateral refusal to license a patent as "exclusionary conduct." *See Data General*, 36 F.3d at 1186 (citing *Miller Instituform, Inc. v. Instituform of North America*, 830 F.2d 606, 609 (6th Cir. 1987) ("A patent

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> . . . . [This is unlawful] whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly.

Id. (citation omitted); *see also Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 665 (1943) ("The method by which the monopoly is sought to be extended is immaterial.")

The particular patent misuse issues addressed in *Leitch* and *Mercoid* are now controlled by 35 U.S.C. § 271, *Dawson Chem. Co. v. Rohm & Haas*, 448 U.S. 176 (1980), but this does not alter the application of their reasoning here.

[9] The ISOs correctly observe that this case involves a selective refusal to sell products protected by patents and copyrights, not an absolute refusal to license. This distinction makes no difference. *See Westinghouse*, 648 F.2d at 647 ("the right to license . . . exclusively or otherwise . . . is the 'untrammeled right' of the patentee."). The ISOs offer no rationale for a distinction between discriminatory licensing and discriminatory sales.

holder who lawfully acquires a patent cannot be held liable under Section 2 of the Sherman Act for maintaining the monopoly power he lawfully acquired by refusing to license the patent to others."); *Westinghouse*, 648 F.2d at 647 (finding no antitrust violation because "Westinghouse has done no more than to license some of its patents and refuse to license others"); *SCM Corp.*, 645 F.2d at 1206 ("where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws.").

This basic right of exclusion does have limits. For example, a patent offers no protection if it was unlawfully acquired. *Data General*, 36 F.3d at 1186 (citing *SCM Corp.*, 645 F.2d at 1208-09). Nor does the right of exclusion protect an attempt to extend a lawful monopoly beyond the grant of a patent. *See Mercoid*, 320 U.S. at 665. Section 2 of the Sherman Act condemns exclusionary conduct that extends natural monopolies into separate markets. Much depends, therefore, on the definition of the patent grant and the relevant market.

The relevant market for determining the patent or copyright grant is determined under patent or copyright law. *See, e.g., id.* at 666 (the patent's grant "is limited to the invention which it defines."). The relevant markets for antitrust purposes are determined by examining economic conditions. *See Kodak*, 504 U.S. at 462 (citing *Jefferson Parish Hospital Dist. No. 2. v. Hyde*, 466 U.S. 2, 21-22 (1984)). We recently noted the distinction between copyright market definition and antitrust market definition in *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995). There, the plaintiff, Southeastern, argued that the copyright of the defendant, Triad, did not

"extend to the service market" for Triad computers. We disagreed stating:

> Triad invented, developed, and marketed its software to enable its customers and its own technicians to service Triad computers. Southeastern is getting a free ride when it uses that software to perform precisely the same service. Triad is entitled to licensing fees from Southeastern and other ISOs. . . .

Id. at 1337. Rather than merely requiring Southeastern to pay for future use, the district court enjoined Southeastern from servicing the computers that had licensed software. *See id.* at 1334. We never reached Southeastern's antitrust counterclaims, as they had not yet been tried. *Id.* at 1338 (district court properly bifurcated the copyright and antitrust claims). Neither did we refer to antitrust principles in defining the reach of Triad's copyright.

Parts and service here have been proven separate markets in the antitrust context, but this does not resolve the question whether the service market falls "reasonably within the patent [or copyright] grant" for the purpose of determining the extent of the exclusive rights conveyed. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708-09 (Fed. Cir. 1992). These are separate questions, which may result in contrary answers. At the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court.

When an owner of intellectual property takes concerted action in violation of § 1, this dissonance does not

threaten his core right of exclusion.[10] *See Brownell v. Ketcham Wire & Manufacturing Co.*, 211 F.2d 121, 129 (9th Cir. 1954) (listing acts giving rise to antitrust liability). Contrary to the ISOs' arguments, there is an important difference between § 1 tying and § 2 monopoly leveraging: the limiting principles of § 1 restrain those claims from making the impact on intellectual property rights threatened by § 2 monopoly leveraging claims. Where, as here, the claim involves a failure to act that is at the heart of the property right, liability depends largely on market definition and lacks the limiting principles of § 1. Under § 2, "[b]ehavior that might otherwise not be of concern to the antitrust laws – or that might even be viewed as procompetitive – can take on exclusionary connotations when practiced by a monopolist." *Kodak*, 504 U.S. at 488 (Scalia, J. dissenting) (citing 3 Areeda & Turner, ¶ 813, at 300-302); *see also Greyhound Computer v. International Business Machines*, 559 F.2d 488, 498 (9th Cir. 1977) (otherwise lawful conduct may be exclusionary when practiced by a monopolist). Harmonizing antitrust monopoly theory with the monopolies granted by intellectual property law requires that some weight be given to the intellectual property rights of the monopolist.

The effect of claims based upon unilateral conduct on the value of intellectual property rights is a cause for serious concern. Unilateral conduct is the most common

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[10] The ISOs withdrew their tying claim. The ISOs' Amici, National Electronics Service Dealers Association and Professional Service Association, argue that the record reflects concerted action by Kodak, but the jury instructions do not define such action and we should not presume that it was found.

conduct in the economy. After *Kodak*, unilateral conduct by a manufacturer in its own aftermarkets may give rise to liability and, in one-brand markets, monopoly power created by patents and copyrights will frequently be found. Under current law the defense of monopolization claims will rest largely on the legitimacy of the asserted business justifications, as evidenced by the jury instructions approved in *Aspen Skiing*.

Without bounds, claims based on unilateral conduct will proliferate. The history of this case demonstrates that such claims rest on highly disputed factual questions regarding market definition. Particularly where treble damages are possible, such claims will detract from the advantages lawfully granted to the holders of patents or copyrights by subjecting them to the cost and risk of lawsuits based upon the effect, on an arguably separate market, of their refusal to sell or license. The cost of such suits will reduce a patent holder's "incentive . . . to risk the often enormous costs in terms of time, research, and development." *Kawanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974). Such an effect on patent and copyright holders is contrary to the fundamental and complementary purposes of both the intellectual property and antitrust laws, which aim to "encourag[e] innovation, industry and competition." *Atari Games Corp. v. Nintendo of America, Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) (citing *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77, (Fed. Cir. 1985)).[11]

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[11] That antitrust claims may cut into the core rights conferred by patents and copyrights is illustrated by the injunction imposed by the district court here. The injunction

3.

We now resolve the question detailed above. Under the fact-based approaches of *Aspen Skiing* and *Kodak*, some measure must guarantee that the jury account for the procompetitive effects and statutory rights extended by the intellectual property laws. To assure such consideration, we adopt a modified version of the rebuttable presumption created by the First Circuit in *Data General*, and hold that "while exclusionary conduct can include a monopolist's unilateral refusal to license a [patent or] copyright," or to sell its patented or copyrighted work, a monopolist's "desire to exclude others from its [protected] work is a presumptively valid business justification for any immediate harm to consumers." *Data General*, 36 F.3d at 1187.

This presumption does not "rest on formalistic distinctions" which "are generally disfavored in antitrust laws;" rather it is based on "actual market realities." *Kodak*, 504 U.S. at 466-67. This presumption harmonizes the goals of the relevant statutes and takes into account the long term effects of regulation on these purposes. The presumption should act to focus the factfinder on the primary interest of both intellectual property and antitrust laws: public interest. *Mercoid*, 320 U.S. at 665 (citation omitted) ("It is the public interest which is dominant

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requires that Kodak supply all ISOs with its patented and copyrighted materials at "reasonable prices." Even the ISOs do not dispute that Kodak is entitled to reap monopoly prices from the sale or licensing of these materials.

in the patent system."); *Standard Oil*, 221 U.S. at 58 (antitrust laws serve the public interest by encouraging effective competition).

Given this presumption, the district court's failure to give any weight to Kodak's intellectual property rights in the jury instructions constitutes an abuse of discretion. This error was, however, harmless. The ISOs maintain that Kodak argued protection of intellectual property as a business justification to the jury, which rejected this justification as pretextual. An error in instructing the jury in a civil case does not require reversal if it is more probable than not harmless. *Jenkins v. Union Pacific R. Co.*, 22 F.3d 206, 210 (9th Cir. 1994).

Kodak contends that the district court's jury instructions prevented it from arguing intellectual property to the jury. Although Kodak listed "Protect[ ] Kodak's R & D investment and intellectual property rights" among the seven business justifications it presented, the only argument Kodak made in closing was this:

> Protecting Investments. By itself, again, another legitimate business reason. You've already seen the size of the investments. And indeed, Plaintiffs themselves recognized that they wouldn't be in business unless Kodak made those investments.

Phrased in these broad terms, Kodak's argument repeats the "free-riding" justification rejected, as a matter of law, by the Supreme Court. *Kodak*, 504 U.S. at 485. The Supreme Court held that preventing the ISOs from "exploit[ing] the investment Kodak has made in product development, manufacturing and equipment sales" does

not suffice as a business justification. *Id.* ("This understanding of free-riding has no support in our case law.").

Given the interplay of the antitrust and intellectual property laws discussed above, Kodak's contention that its refusal to sell its parts to ISOs was based on its reluctance to sell its patented or copyrighted parts was a presumptively legitimate business justification. *See Data General*, 36 F.3d. at 1187. Kodak may assert that its desire to profit from its intellectual property rights justifies its conduct, and the jury should presume that this justification is legitimately procompetitive.

Nonetheless, this presumption is rebuttable. *See id.* at 1188. In *Data General*, the First Circuit reasoned that the plaintiff did not rebut the presumption by drawing an analogy to *Aspen Skiing*, where a monopolist made an important change in its practices, which had both originated in a competitive market and persisted for several years. *See Data General*, 36 F.3d at 1188. Because competitive conditions had never prevailed in the service market, the First Circuit concluded that it would be inappropriate to infer "from [defendant's] change of heart that its former policies 'satisfy consumer demand in free competitive markets.' " *Id.* at 1188 (quoting *Aspen Skiing*, 472 U.S. at 603). As in *Data General*, we are not faced here with a simple comparison between the monopolist's market and the established competitive market found in *Aspen Skiing*.

The *Data General* court noted that the presumption of legitimacy can be rebutted by evidence that the monopolist acquired the protection of the intellectual property laws in an unlawful manner. *See* 36 F.3d at 1188 (citation

omitted). The presumption may also be rebutted by evidence of pretext. Neither the aims of intellectual property law, nor the antitrust laws justify allowing a monopolist to rely upon a pretextual business justification to mask anticompetitive conduct. *See Kodak*, 504 U.S. at 484 (Because "Kodak's willingness to allow self-service casts doubt on its quality claim. . . . a reasonable trier of fact could conclude that [this justification] is pretextual.") (citation omitted).

Kodak defends its intellectual property rights "justification" against claims of pretext. Kodak argues that its subjective motivation is irrelevant. Kodak also contends, citing *Olympia Equipment Leasing Co. v. Western Union Telegraph Co.*, 797 F.2d 370, 379 (7th Cir.), *reh'g denied*, (7th Cir. 1986), that a desire to best the competition does not prove pretext, nor does hostility to competitors. Kodak's argument and its accompanying authority stands for nothing more than the proposition that a desire to compete does not demonstrate pretext.

Evidence regarding the state of mind of Kodak employees may show pretext, when such evidence suggests that the proffered business justification played no part in the decision to act. Kodak's parts manager testified that patents "did not cross [his] mind" at the time Kodak began the parts policy. Further, no distinction was made by Kodak between "proprietary" parts covered by tooling or engineering clauses and patented or copyrighted products. In denying Kodak's motion for a new trial, the district court commented that Kodak was not actually motivated by protecting its intellectual property rights. Kodak argues that the district court should have allowed the jury to reach this conclusion.

Kodak photocopy and micrographics equipment requires thousands of parts, of which only 65 were patented. Unlike the other cases involving refusals to license patents, this case concerns a blanket refusal that included protected and unprotected products. *Cf. Westinghouse*, 648 F.2d at 647 (refusal to license patents); *SCM Corp.*, 645 F.2d at 1197 (same); *Miller Instituform*, 830 F.2d at 607 (claim based on termination of license agreement). From this evidence, it is more probable than not that the jury would have found Kodak's presumptively valid business justification rebutted on the grounds of pretext.[12]

Kodak argues that the existence of some patented and copyrighted products undermines ISOs "all parts" theory. To the contrary, as discussed above, the "all parts" market reflects the "commercial realities" of the marketplace and the lack of identifiable separate markets for individual parts. The fact that Kodak did not differentiate between patented and nonpatented parts lends further support to the existence of these commercial realities. The jury accepted the "all parts" theory and found a scheme to monopolize the service market through Kodak's conduct. We hold that the district court's failure to instruct on Kodak's intellectual property rights was harmless.

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[12] In Jury Instruction No. 34, the jury was instructed that, if they "find that any Kodak business reason" is a legitimate business reason, in that it "furthers competition on the merits, reduces prices, enhances the quality or attractiveness of a product, increases efficiency by reducing costs or otherwise benefits consumers," they "should then consider whether each such reason is pretextual – in other words, not a genuine reason for Kodak's conduct."

IV

Kodak asserts that the district court erred in failing to excuse Juror John Bushong on the grounds of bias. We recognize the district court's broad discretion on matters concerning juror bias and review such challenges for an abuse of discretion. *Hard v. Burlington Northern R.R. Co.*, 870 F.2d 1454, 1460 (9th Cir. 1989).

Kodak's complaint revolves around Bushong's prior relationship with Kodak. At voir dire, Bushong disclosed that he had dealt with Kodak previously in conjunction with a photo laboratory he owned from 1979 to 1987. Kodak's counsel questioned Bushong as to how this prior experience might influence his objectivity. Bushong responded that he could put aside his personal opinions and base a verdict on the evidence in an impartial and fair manner. Neither party moved to strike Bushong from the jury panel and he was subsequently seated on the jury.

On the second day of trial Bushong sent a note to the judge expressing concern over his ability to remain impartial given his prior dealings with Kodak. Bushong wrote that he was "having difficulty not remembering [his] sometimes adversarial relationship with Kodak." The note continued: "I don't know if this will effect [sic] me in my decision on the case. But could you please advise me how you feel about this." The judge had Bushong brought into open court, alone, for questioning by the court and counsel. Further inquiry revealed Bushong's feelings of resentment toward Kodak stemming from Kodak's handling of his prior account. Bushong indicated that he was struggling to remain impartial.

Kodak then moved to strike Bushong for cause. The court decided to allow Bushong to remain on the jury subject to questioning two days later. The judge indicated that if Bushong harbored any conflict at the second hearing, Bushong would be removed.

At the second hearing, Bushong assured the court of his impartiality and confirmed his ability to judge the case fairly. He stated:

> I can tell you that I've always prided myself in being a just and fair person and being observant of the facts. And that I think that in this case I can judge by the facts as presented and will give the facts a chance to speak for themselves.

Bushong also indicated that his negative memories of Kodak were "not coming back stronger. They are actually subsiding." Consequently, the judge denied Kodak's motion to dismiss Bushong for cause.

Kodak can only succeed on a challenge for cause by showing that Bushong was actually biased. *Ward v. United States*, 694 F.2d 654, 665 (11th Cir. 1983). Actual bias involves an inability to act impartially or a refusal to weigh the evidence properly. *Id.* A juror's initial impressions or initial bias may be irrelevant, at the trial judge's discretion, when that juror commits to lay aside those feelings and reach a verdict based on the evidence presented and the court's instructions. *See United States v. Claiborne*, 765 F.2d 784, 800 (9th Cir. 1985), *abrogated on other grounds, Ross v. Oklahoma*, 487 U.S. 81 (1988). The trial judge, who observes the demeanor and credibility of a juror, is best suited to determine a juror's impartiality. *See Thompson v. Keohane*, 116 S. Ct. 457, 464-65 (1995).

The district judge determined that Juror Bushong was fit to serve on the jury. We see no reason to upset that determination or to disregard Mr. Bushong's oath to judge the evidence fairly and obey the court's instructions. *See United States v. Quintero-Barraza*, 78 F.3d 1344, 1350 (9th Cir. 1995) (court "must pay due respect for the oath taken by [a juror] given the absence of any stated intention to disregard it."), *cert. denied*, 117 S. Ct. 135 (1996).

Kodak argues that Bushong's initial bias takes on greater weight in light of the prolonged and contentious jury deliberations. Kodak cites the jurors' notes indicating "serious conflict," the district court's *Allen* charge and dismissal of a juror, as well as the need for supplemental instructions. Whether these irregularities were the consequence of the quantity and complexity of the evidence or otherwise, we need not decide; these factors are not relevant to our review of the district court's denial of Kodak's motion to exclude Juror Bushong. The district judge did not abuse his discretion in denying Kodak's motion, and the failure to dismiss Bushong did not deprive Kodak of a fair trial.

V

Kodak next attacks both the jury's award of service damages and used equipment damages. We review a jury's verdict for substantial evidence. *Davis*, 927 F.2d at 1486. In the context of antitrust violations that standard is relaxed once liability is shown because market uncertainties often preclude a precise showing of "where" the plaintiff would have been absent the proven antitrust

violation. *See Hasbrouck v. Texaco, Inc.*, 842 F.2d 1034, 1044 (9th Cir. 1987) (citation omitted), *aff'd*, 496 U.S. 543, 572-73 (1990). We allow juries to rely on probable and inferential proof, and to approximate damages. *See J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557, 565-66 (1981); *Dolphin Tours, Inc. v. Pacifico Creative Service*, 773 F.2d 1506, 1511 (9th Cir. 1985).

The ISOs employed a "yardstick" methodology in calculating damages. That is, the ISOs calculated damages by comparing their business to a comparable business not affected by the anticompetitive conduct at issue. *Id.* ("In economic terms, the amount of damages is the difference between what the plaintiff could have made in a hypothetical free economic market and what the plaintiff actually made in spite of the anticompetitive activities."). Whether that "unaffected" business properly compares to the relevant market presents a question of fact for the jury. *Syufy Enterprises v. American Multicinema, Inc.*, 793 F.2d 990, 1003 (9th Cir. 1986).

Volume 2 of 2

FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

IMAGE TECHNICAL SERVICES, INC.; J-E-S-P COMPANY, INC.; SHIELDS BUSINESS MACHINES, INC.; MICRO-GRAPHIC SERVICES, INC.; OMNI MICRO-GRAPHIC SERVICES, INC.; ATLANTA GENERAL MICROFILM CO., INC.; DATEK LTD; B.C.S. TECHNICAL SERVICES, INC.; CPO LTD. INC.; ADVANCED SYSTEMS SERVICE, INC.; AMTECH EQUIPMENT MAINTENANCE, INC., *Plaintiffs-Appellees,* v. EASTMAN KODAK CO., *Defendant-Appellant.*	Nos. 96-15293 96-15296 D.C. No. CV-87-01686-AWT OPINION

Appeal from the United States District Court
for the Northern District of California
A. Wallace Tashima, District Judge, Presiding

Argued and Submitted
September 19, 1996 – San Francisco, California

Filed August 26, 1997

Before: Robert R. Beezer and David R. Thompson, Circuit Judges, Helen W. Gillmor, District Judge.**

Opinion by Judge Beezer; Partial Concurrence and Partial Dissent by Judge Gillmor

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** The Honorable Helen W. Gillmor, United States District Judge for the District of Hawaii, sitting by designation.

A. Service Damages

The ISOs' damage expert employed two basic yardsticks in determining damages: "1) plaintiffs' own non-Kodak revenues, and 2) the composite growth of other plaintiff ISOs' non-Kodak revenue." The ISOs' expert, Thomas Neches, found that ten of the eleven plaintiffs had sufficient non-Kodak revenues to justify using the first yardstick. Seven ISOs had insufficient non-Kodak revenues, so Neches calculated damages by comparing ISO's growth to the averaged annual composite growth of the other ISOs' non-Kodak revenues, the second yardstick. Neches used other methods in determining damages for plaintiffs MSI, CPO and ITS. Neches based MSI's lost profits on the statements of MSI's president to the effect that MSI would have earned 50% more "but for" the Kodak parts policy. For CPO and ITS copier service, Neches derived his damage estimates using an averaged growth rate of the ISOs servicing micrographic equipment. Kodak now challenges both the MSI and CPO estimates.

Kodak, citing *Gray v. Shell Oil Co.*, 469 F.2d 742 (9th Cir. 1972), argues that the testimony of MSI's president provides insufficient support for the MSI yardstick. In *Gray*, we noted:

> [plaintiff's] opinion, based on his hindsight, that he would have been able to make a greater margin of profit . . . is pure guess work and without foundation in this record.

Id. at 748. The record supports MSI's damage estimates. The record shows that MSI's lost profits were caused by its inability to obtain sufficient parts to compete for

Kodak's large contracts. Further, MSI's president explained how he and his employees arrived at the 50% estimate, amounting to an extra $20,000 in service sales per year in each of MSI's twenty metropolitan areas.

Kodak argues that Neches used MSI's 50% figure "without further inquiry." To the contrary, Neches testified that he conducted additional analysis to verify that the 50% figure was a "reasonable projection;" he concluded "it was." Neches also prepared a market share study to verify that a sufficient number of machines were available to support MSI's claimed market share increase. This evidence sufficiently supports Neches' damage estimates.

As to CPO and ITS, Kodak challenges the benchmark used for their damage claims: the average growth rate of the micrographic services of the other ISOs. Neches used this method because ITS had no copier service other than Kodak and although CPO serviced Xerox machines, Xerox adopted a parts policy similar to that of Kodak. Neches used the ISOs as his comparable market, and Kodak fails to identify any record evidence demonstrating that the markets used were not comparable. If there were "no meaningful economic similarity" between the ISOs and the firms used for comparison, we would have cause to overturn the damages. *See William Inglis & Sons v. Continental Baking*, 942 F.2d 1332, 1341 (9th Cir. 1991), *vacated in part on other grounds*, 981 F.2d 1023 (9th Cir. 1992). There is such a similarity here. We hold that substantial evidence supports the jury's finding.

Kodak next focuses on the incongruity between the damages awarded to the larger ISOs (MSI and CPO) and

the smaller ISOs. Kodak highlights the distinction between the two groups: the larger ISOs had access to parts and profited, while the smaller ISOs often gave up the search for parts. That the larger ISOs earned profits, however, does not preclude them from recovering damages to compensate any losses stemming from Kodak's anticompetitive behavior. Juries may award damages to profitable businesses for lost sales as the result of anticompetitive behavior. *See Great Western Directories, Inc. v. Southwestern Bell Telephone Co.*, 63 F.3d 1378, 1387-88 (5th Cir. 1995), *superseded in part on other grounds*, 74 F.3d 613, *cert. dismissed*, 117 S. Ct. 26 (1996); *see also Pierce v. Ramsey Winch Co.*, 753 F.2d 416, 436-37 (5th Cir. 1985) (plaintiff can establish antitrust injury by showing that it would have earned an even higher profit but for antitrust injury). MSI and CPO, though profitable, showed that Kodak's parts policy handicapped their growth.

Kodak also claims that it was not responsible for the losses of ASI, which went out of business, as those losses resulted from ASI's inability to adapt to Kodak's conduct. ASI's president admitted that he simply stopped trying to obtain parts and let his contracts expire after Kodak instituted its parts policy. The fact that other ISOs took ASI's customers and profited shows that ASI's exit was caused by factors other than Kodak's conduct. *See Datagate, Inc. v. Hewlett-Packard Co.*, 941 F.2d 864, 868 (9th Cir. 1991) (no antitrust injury where exiting ISO lost its customers to an entering ISO). Accordingly, substantial evidence does not support ASI's damage award, and we reverse as to those damages.

Kodak next argues that the ISOs' damage study failed to properly consider later changes in the ISOs'

claims. First, Kodak cites testimony by principals of various ISOs establishing the availability of parts for pre-1986 micrographics equipment. Yet, Kodak argues, Neches testified that he built the damage study on the assumption that the micrographics plaintiffs "were claiming damages on both pre-1986 and post-1986 equipment." Nonetheless the damages estimates remain valid, because, as Neches explained, the pre and post-1986 distinction made no difference in his projections:

> The way that my study was done, I don't look at specific equipment, specific parts, specific customers. I look at the overall trend of the sales.
>
> If [plaintiffs] were selling pre-'86 equipment or able to service some post-'86 equipment, that would show up in their actual sales and would act as a reduction to damages.

Neches calculated lost revenues by subtracting Kodak revenues from non-Kodak revenues (the yardstick) and multiplying by marginal profit rates.[13] This method accounted for revenues actually earned from pre-1986 Kodak equipment, but the damage awards did not include lost profits from service of pre-1986 equipment for these ISOs.

Kodak argues that the damage study failed to account for the fact that the ISOs did not compete with Kodak for the point-of-sale contracts entered into between equipment sellers and purchasers. Kodak does

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[13] Kodak does not point to evidence showing that MSI's president based his 50% earnings growth estimate on pre-1986 equipment.

not point to evidence in the record, however, establishing that the ISOs' non-Kodak revenue derived from such contracts. Absent this evidence, Kodak does not demonstrate that the comparative use of non-Kodak revenue as a yardstick is inaccurate.[14]

Kodak also argues that the ISOs' failure to alter the damage study after the withdrawal of the ISOs' tying and conspiracy claims invalidates the study. In the conspiracy and tying claims the ISOs alleged a different legal theory for the same harm that the jury found at trial: exclusionary conduct leading to the monopolization of the service market. The jury found that Kodak's conduct deprived the ISOs of service contracts they would otherwise have obtained. That Kodak accomplished this through its parts policy and restrictions on original-equipment manufacturers and not through overt tying or conspiracy does not affect the total damages. Section 4 of the Clayton Act provides for damages upon a showing of antitrust injury. 15 U.S.C. § 15; *Datagate*, 941 F.2d at 868 (citations omitted).

Kodak argues that the ISOs' damages do not comport with the impact of a hypothetical open sale policy on parts. Neches agreed that if Kodak increases its parts prices, the ISOs' service profits would decrease in the "but for" world without Kodak parts policy. These changes could decrease the ISOs' profit margins. For most

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[14] Although Neches' calculation of the equipment available to service in different markets might have been skewed by failing to take equipment under point-of-sale contracts into account, certain exhibits show that these contracts were taken into account in his market calculation.

ISOs, however, the jury was asked to compare revenues from service on equipment brands not restricted by a parts policy.[15] These competitive markets would reflect new entry, parts price increases and optimal service prices.

We uphold these damages and all service damages with the exception of those damages awarded to ASI.

B. Used Equipment Damages

Kodak challenges the jury's damage award, to six ISOs, for reduced sales of refurbished Kodak equipment. The district court previously dismissed the ISOs' used equipment monopoly claims "on the merits." The court nonetheless gave Jury Instruction No. 52, submitted by Kodak, which allowed the jury to award damages for lost equipment sales "caused by some of the consequences flowing from the monopolization of the service market."

Kodak now argues that the used equipment damage award was improper because Neches did not distinguish between equipment sales lost due to Kodak's control over the parts market and equipment sales lost due to Kodak's service monopoly. In denying Kodak's motion for judgment as a matter of law, the district court relied on *Litton Systems, Inc. v. AT & T Co.*, 700 F.2d 785 (2d Cir. 1983), and concluded that the jury "had an evidentiary basis for finding that . . . ISOs would not only be able to get parts to *service* used equipment, but also to refurbish used

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[15] MSI's president factored in a 20% "attrition rate" in order to account for new competition. MSI's projected growth rate for the relevant period was less than the other ISOs.

equipment." We review Kodak's motion for judgment as a matter of law de novo. *Bank of the West v. Valley Nat'l Bank of Arizona*, 41 F.3d 471, 477 (9th Cir. 1994).

In *Litton*, the Second Circuit upheld a damage award despite the fact that the plaintiff's damages study failed to differentiate between lawful and unlawful practices. 700 F.2d at 825. The Second Circuit indicated that, contrary to the defendant's argument, the study did not assume the absence of certain practices not proven at trial. *Id. Litton* did not address the issue presented here: the disaggregation of damages attributable to different acts and suffered in different markets.

The ISOs must segregate damages attributable to lawful competition from damages attributable to Kodak's monopolizing conduct. *Vernon v. Southern Cal. Edison Co.*, 955 F.2d 1361, 1372 (9th Cir. 1992) (citing *MCI Communications Corp. v. AT & T*, 708 F.2d 1081, 1161 (7th Cir. 1983)). A failure to do so contravenes the command of the Clayton Act. Although the district court instructed the jury to award only those damages arising from Kodak's monopolization of the service market, the ISOs point to no basis in the record for quantifying lost sales of used equipment caused by Kodak's service monopoly. The ISOs' evidence consists only of complaints by individual ISO owners that they could not sell used equipment because they could not find anyone to service that equipment besides Kodak, who effectively refused. Kodak's used equipment service policy could not properly be presented to the jury as an anticompetitive practice given the district court dismissed the ISOs' used equipment monopolization claim.

The ISOs counter that they explained the causation issue to the jury, which did not award all the damages requested. Nonetheless, any damages awarded were speculative. Maintaining that all damages were caused by Kodak's anticompetitive conduct, the ISOs argue that disaggregation is required only where some damage has been caused by lawful activity. This argument renders the distinction between conduct not adjudicated unlawful and "purely lawful competitive action" illusory.[16] In the context of a § 2 monopolization claim, conduct is unlawful because of its anticompetitive effects on the relevant market. Yet conduct found anticompetitive in one market may not be anticompetitive in another market.

When a § 2 monopolization claim has been dismissed or adjudicated against a plaintiff, damages attributable to that claim must be disaggregated. *See id.* at 1371-72 (citing *MCI*, 708 F.2d at 1161-63). In *MCI Communications Corp. v. AT & T*, for example, the damage study employed assumed twenty-two unlawful acts, yet the jury found liability on a substantially lower number of violations. 708 F.2d at 1163. The Seventh Circuit reversed and remanded for a new trial on damages, holding:

> [MCI's damage] study does not contain any information indicating how to adjust MCI's projected revenues and profits to reflect a possible finding that [some items] were lawfully priced.

Id. Faced with the same difficulty, we also remand for a new trial on used equipment damages.

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[16] The ISOs' argument that they were entitled to recover damages under a more general "proximate cause" instruction also founders on this untenable distinction.

VI

Last, Kodak challenges the district court's ten year permanent injunction requiring Kodak to sell all parts to all ISOs at reasonable prices.[17] We review the district court's grant of permanent injunctive relief for an abuse of discretion or application of erroneous legal principles. *Dexter v. Kirshner*, 984 F.2d 979, 982 (9th Cir. 1992). Appellate courts often defer to trial courts on issues involving the "framing" of injunctions. Appellate courts will modify injunctions, however, when such action is "necessary to assure that the relief will be effective." *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 64 (1973) (internal quotation and citation omitted).

Kodak attacks the injunction on the grounds that requiring Kodak to inventory parts for the ISOs promotes free-riding by the ISOs. In *Kodak*, the Supreme Court noted that for Kodak to have an objection based upon free-riding, "the [ISOs] would have to be relying on Kodak's investment in the service market. . . . " 504 U.S. 485 n.33; *see, e.g., Abcor Corp. v. AM Int'l, Inc.*, 916 F.2d 924, 929 (4th Cir. 1990) ("If [the plaintiff] wants to ensure emergency access to a supply of parts, it may do so by maintaining its own stockpile rather than 'free riding' on the inventory costs incurred by [the defendant]."). Kodak's costs for maintaining an inventory of original-

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[17] Counsel informed this court, by letter dated February 24, 1997, of an amendment to the district court's injunction. We recommend that the district court review that amendment in light of the modifying language set forth below.

equipment manufacturer produced parts constitute a portion of its investment in the service market and thus the ISOs are free-riding.

Further, the injunction requires Kodak to sell all parts for Kodak equipment, whether or not Kodak manufactures those parts, and forbids Kodak from interfering with sales to ISOs by original-equipment manufacturers.[18] Through these two provisions, the injunction allows the ISOs to choose between purchasing from Kodak, which must warehouse parts, or from individual suppliers. Because the ISOs have an alternative source for these parts, the "no interference with [original-equipment manufacturers]" requirement is unnecessary and anticompetitive. It promotes free-riding by requiring Kodak to pay for keeping a massive inventory of parts for the ISOs. This "all parts" requirement creates barriers for non-Kodak original-equipment manufacturers by requiring them to price replacement parts at levels necessary to attract ISOs away from Kodak's parts counter. It also unnecessarily entrenches Kodak as the only parts supplier to ISOs. Consequently, we direct the injunction to require Kodak to sell only Kodak-manufactured parts. In order to avoid confusion over combinations of parts made from some elements manufactured by Kodak and some by original-equipment manufacturers, we require

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[18] The injunction limits this requirement where "the ISOs or vendors are . . . causing the breach of any obligation of themselves or a third party not to disclose proprietary Kodak data . . . provided that the sale of a part . . . shall not be deemed to be a disclosure of Kodak proprietary data." The net effect is to require the sale of parts.

that "Kodak parts" include any "subassemblies, [etc.]" as specified in the injunction.

Next, Kodak contends that the injunction imposes utility-like regulation of prices and deprives Kodak of its right to earn monopoly profits on its patented and copyrighted products. This requirement involves the court in a matter generally considered beyond our function, namely, direct price administration. *See Concord v. Boston Edison Co.*, 915 F.2d 17, 25 (1st Cir. 1990) (citations omitted). The district court observed that Kodak "erroneously assumes that it is still entitled to charge monopolistic prices." In fact, Kodak is entitled to monopoly prices on its patented and copyrighted parts, as the ISOs admit. The cases cited by the district court involve forced sales at reasonable prices where the defendant has restrained trade in the market for patented goods. *See, e.g., Glaxo Group*, 410 U.S. at 62 (defendant required to sell bulk chemical controlled by illegal patent pooling). Kodak used its monopoly on parts, including patented and copyrighted products, to monopolize the service market. If future harm may be prevented without eroding the value of Kodak's intellectual property rights, less restrictive means need be pursued. Protecting Kodak's intellectual property rights takes on special significance where the injunction requires reasonable prices for the sale or licensing of parts for all new Kodak equipment introduced during the injunction's ten year period. This requirement substantially lowers Kodak's incentive to create new products.

Dropping the reasonableness element and requiring nondiscriminatory pricing will both end Kodak's service monopoly and protect Kodak's intellectual property

rights. Kodak should be permitted to charge all of its customers, including end users (both self-servicers and those under service contracts with Kodak),[19] service companies contracting with Kodak and ISOs, any nondiscriminatory price that the market will bear.[20] We direct the district court to modify the injunction by deleting the requirement that prices "in any event, be reasonable."

Kodak's remaining challenges to the injunction are without merit. Injunctive relief covering nonparty ISOs is proper under these circumstances. *See Hawaii v. Standard Oil Co.*, 405 U.S. 251, 261 (1971) ("While . . . any individual threatened with injury by an antitrust violation may- . . . sue for injunctive relief . . . one injunction is as effective as 100."); *Bresgal v. Brock*, 843 F.2d 1163, 1170-72 (9th Cir. 1987) (relief in favor of nonparties appropriate where same defendant enjoined and where broad scope is necessary to give prevailing parties relief). Relief in favor of all ISOs prevents entrenching the ISOs as service or parts oligopolists. Likewise, the district court had ample authority for ordering forced sale or licensing of patented or copyrighted products. *See Glaxo Group*, 410 U.S. at 62.

We direct the following modifications to the injunction:

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[19] Forcing nondiscriminatory pricing will force Kodak to restructure its pricing policies, but this result is less onerous than direct price regulation.

[20] The district court observed that the prices Kodak charges to companies like Danka and Canon, which have entered into servicing contracts with Kodak, provide a basis for assessing the reasonableness of Kodak prices. When the ISOs expand their markets, however, the demand for Kodak parts will increase, and Kodak should not be limited to its current prices.

1. DEFINITION OF TERMS

As used in this permanent injunction, the following terms shall have the following meanings:

(a) "Kodak" shall mean the defendant Eastman Kodak Company, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with any of them who receive notice of this injunction[, **and Kodak's successors and assigns**].

(b) "Kodak equipment" shall refer to all past, present and future micrographic equipment (whether film or digitized media based) made by or for defendant and to all Kodak high volume photocopiers made by or for defendant Kodak including, without limitation, all such equipment serviced by Kodak personnel in the field.

(c) "ISOs" shall refer to any person, firm, corporation or other entity engaged, in whole or in part, in providing equipment on site or field repair or maintenance service to end user customers possessing Kodak micrographic equipment or Kodak high volume photocopiers in the United States.

(d) "Parts" includes the following:

(i) parts for Kodak equipment;

(ii) parts identified or described in Kodak's Parts Lists;

(iii) all parts or supply items that are field replaceable by Kodak technicians (including, without limitation, subassemblies – to the extent that subassemblies are available to Kodak

technicians – circuit board level parts, IC chips, image loops, pm packs, filters and cleaning kits);

(iv) service manuals (including those incorporated in hard copy, microfiche or other medium), parts, lists, price lists; and

(v) all tools or devices essential to servicing Kodak equipment including, but not limited to, service modules, meters and electrometers, but excluding tools and devices which are generally available from normal commercial sources and which are not distributed by Kodak to its technicians.

(e) "Kodak parts" include any part assembled, prepared or manufactured by Kodak. Kodak parts shall not include parts manufactured by original-equipment manufacturers for Kodak.

2. SALE OR PARTS FOR HIGH VOLUME COPIERS AND MICROGRAPHIC EQUIPMENT BY KODAK

(a) Kodak shall sell ***Kodak*** parts to ISOs or any buying cooperatives acting on behalf of ISOs for all models of Kodak equipment for which Kodak or its authorized agents offer service, provided that Kodak reserves the right to require cash on delivery for new sales to any person without an established and reasonably acceptable credit history or who is in default of an obligation to pay Kodak for previous orders or to take other reasonable actions related to credit if applied to ISOs and other third parties in a nondiscriminatory manner.

(b) All orders for ***Kodak*** parts by ISOs shall be made through the Kodak Customer

Parts and Product Support Center (or similar facility) currently located in Rochester, New York.

(c) To the extent Kodak offers to its own technicians, for their use in repairing and maintaining Kodak equipment, individual ***Kodak*** parts as well as subassemblies containing numerous ***Kodak*** parts, or to the extent it is reasonable to do so, Kodak will offer to sell to any interested party on **[reasonable and]** nondiscriminatory terms and prices such individual parts and subassemblies, even though doing so gives the prospective purchaser the option of obtaining a particular part by itself or as a component of a subassembly.

(d) The provisions of this Injunction apply to equipment models which Kodak will introduce during the term of this Injunction as well as to the equipment models which Kodak has already introduced.

(e) "Sell" as used in paragraph 2(a), above, includes, at Kodak's option, "license" with respect to any copyrighted "parts," on **[reasonable and]** nondiscriminatory terms.

3. ISO ACCESS TO THIRD PARTY SOURCES OF PARTS

(a) Kodak shall not interfere with the ISOs' purchase of parts from third party vendors (including the purchase of parts from Kodak parts suppliers), so long as the ISOs or vendors are not causing the breach of any obligation of themselves or a third party not to disclose proprietary Kodak data, specifications, drawings and/or schematic diagrams; provided that the sale of a part by a third party vendor or Kodak

part supplier shall not be deemed to be a disclosure of Kodak proprietary data.

4. NO DISCRIMINATION AGAINST ISOs

(a) Kodak shall not discriminate against any ISO regarding parts availability or prices vis-a-vis any other ISOs, or any other commercial service provider ***or end user*** (*i.e.*, Kodak will sell parts to any ISO at the same prices and terms, conditions and delivery schedules offered to any other ISO commercial service provider ***or end user***) **[which prices, terms and conditions shall, in any event, be reasonable]**.

(b) Kodak shall not discriminate against any customer or other party on the basis that such customer or other party has used the parts or services of someone other than Kodak in connection with Kodak equipment; provided, however, that nothing in this order shall prohibit Kodak from charging a reasonable fee to inspect Kodak equipment before agreeing to offer an equipment maintenance agreement for service of that Kodak equipment.

5. KODAK'S RETENTION OF PROPRIETARY RIGHTS

Nothing in this Injunction shall prevent Kodak from taking appropriate legal steps to prevent others from duplicating parts for Kodak equipment in which Kodak has a protectable intellectual property interest.

6. NOTICE OF INJUNCTION

Kodak shall, within 45 days of the entry of this injunction, send to its past (within past five years) and current micrographic equipment and high volume photocopiers service customers a

notification advising them that Kodak has been ordered to sell Kodak parts to ISOs for the repair and maintenance of Kodak equipment, in a form agreeable to plaintiffs or as approved by the court.

7. TERM OF INJUNCTION

Absent further order of this Court for good cause shown, this Injunction shall expire ten (10) years from the date of its entry. ***If Kodak completely exits the service market for either (1) high volume copiers or (2) micrographic equipment, the terms of this injunction shall no longer apply to Kodak parts for that equipment.***

8. RETENTION OF JURISDICTION

This Court retains jurisdiction of this matter for the purpose of enabling any party to apply for such further orders and directions as may be necessary or appropriate for the construction, modification or termination of any of the provisions herein, or for enforcement and compliance with its terms or for the punishment of violations.

VII

We AFFIRM as to all liability issues; REVERSE all damages awarded to ASI and those damages awarded for lost sales of used equipment and REMAND for a new trial on used equipment damages. We AFFIRM on the remaining damage awards and AFFIRM the injunction as modified. Additionally, we award partial attorney's fees for the ISOs to be determined by the district court.

AFFIRMED in part, REVERSED in part, and REMANDED for further proceedings.

GILLMOR, District Court Judge, concurring in part and dissenting in part:

I join in the majority opinion affirming in part, reversing in part and remanding for further proceedings, with the exception of two modifications to the permanent injunction of the district court. Both modifications concern the applicability of the injunction to Kodak's successors. The first is the deletion of the provision in paragraph 1(a) of the injunction specifying that the injunction applies to "Kodak's successors and assigns." The second modification with which I do not agree is the addition to paragraph 7 of the injunction of the following provision: "If Kodak completely exits the service market for either (1) high volume copiers or (2) micrographic equipment, the terms of this injunction shall no longer apply to Kodak parts for that equipment." I believe that these modifications are unnecessary and significantly reduce the effectiveness of the injunction.

I

The appellate court reviews a district court's decision to grant permanent injunctive relief and the scope of that relief for an abuse of discretion or application of erroneous legal principles. *Viceroy Gold Corp. v. Aubry*, 75 F.3d 482, 488 (9th Cir. 1996); *Dexter v. Kirschner*, 984 F.2d 979, 982 (9th Cir. 1993). Appellate courts may also modify the scope of an injunction when such action is "necessary to assure that the relief will be effective." *United States v. Glaxo Group, Ltd.*, 410 U.S. 52, 64 (1973). Applying these

standards, I do not believe the majority's modifications are necessary or appropriate. The district court's decision to provide for application of the injunction to Kodak's successors and assigns was amply supported by law and by the facts of this case and was not an abuse of discretion. Moreover, I believe that the majority's modifications decrease, rather than assure, the effectiveness of the injunction.

The injunction in this case should apply to Kodak's successors and assigns. The application of an injunction need not be strictly limited to parties before the Court and may extend to the successors and assigns of a party. Federal Rule of Civil Procedure 65(d) provides that an injunction is "binding only upon the parties to the action, their officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with them who receive actual notice of the order by personal service or otherwise." Fed. R. Civ. P. 65(d). Applying this Rule, both the Supreme Court and the Ninth Circuit have upheld injunctions that apply to the "successors and assigns" of named defendants. *See Golden State Bottling Co., Inc. v. National Labor Relations Board*, 414 U.S. 168, 177-80 (1973); *Regal Knitwear Co. v. National Labor Relations Board*, 324 U.S. 9, 13-16 (1945); *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1298 (9th Cir. 1992). The Supreme Court has recognized that a successor of a party may be in privity with that party for purposes of Rule 65(d). *Golden State Bottling*, 414 U.S. 179. The district court had authority to enjoin Kodak's successors and assigns from continuing Kodak's violations of the antitrust laws.

A provision extending application of an injunction to the successors and assigns of a named party is often essential to the effectiveness of the injunction. As was noted in Gallo, without such a provision, "the injunction theoretically might be defeated by assignment; at the very least an avenue for further litigation would be left open." *Gallo*, 967 F.2d at 1298. If an injunction does not apply to the defendant's successors, the defendant could nullify the injunction by assigning a portion of its business operations to a third party, which would then be free to resume the enjoined activity. Even where assignment is not the product of intentional collaboration by the defendant and the assignee to avoid the impact of the injunction, assignment permits the assignee to resume the enjoined conduct and forces the plaintiff to return to court to seek a new injunction against the assignee.[1]

For these reasons, I believe that the district court's decision to provide for application of the injunction to Kodak's successors and assigns was appropriate and necessary to ensure the effectiveness of the injunction.

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[1] The facts of the instant case illustrate this problem. On February 12, 1997, after oral argument in this case, the parties and Danka Office Imaging Company ("Danka") filed in the district court a stipulation stating that Kodak has sold its copier sales and service division to Danka. Pursuant to the stipulation of the parties and of Danka, the district court entered an order stating that Danka agreed to be bound by the terms of the injunction. Because the majority eliminates the provisions applying the injunction to Kodak's successors, the sale to Danka will deprive the ISOs of an important portion of the relief they have obtained.

II

The majority's modifications to paragraphs 1 and 7 of the injunction fundamentally alter the scope of the injunction. The removal of the provision applying the injunction to "Kodak's successors and assigns" enables Kodak to deprive the ISOs of the relief embodied in the injunction by assigning a portion of its operations to a third party. If this were the only modification, it would still be theoretically possible for the ISOs to seek to hold a particular successor to the terms of the injunction. Because the injunction still applies to "all persons in active concert or participation with" Kodak, the ISOs could seek to bind a particular successor to the injunction by seeking to prove collaboration between Kodak and the successor.

The modification to paragraph 7 of the injunction eliminates this possibility. This modification provides that, upon Kodak's exit from the copier service market, all provisions of the injunction relating to copier parts will terminate. The provisions of the injunction pertaining to copier parts will be eliminated and will no longer apply to anyone: Kodak, Kodak's successors, or those in "active concert or participation" with Kodak. Even assuming that it was necessary to narrow the class of persons bound by the injunction, I see no basis for eliminating key provisions of the injunction altogether.

I do not believe that such fundamental alterations to the injunction are necessary or appropriate. The application of the injunction to Kodak's successors is supported by law and is not based on the application of erroneous legal principles. Binding Kodak's successors to the

injunction is necessary to ensure that the ISOs are not deprived of effective injunctive relief. The majority opinion does not state any reason for altering this aspect of the injunction. Moreover, the parties have not objected on appeal to the application of the injunction to Kodak's successors. In these circumstances, I cannot conclude that the district court abused its discretion by framing the injunction as it did.

Although an appellate court may modify an injunction when such action is "necessary to assure that the relief will be effective," *see Glaxo*, 410 U.S. at 64, it appears that the majority's modifications will drastically reduce the effectiveness of the injunction. The Supreme Court noted in *Glaxo* that the "purpose of relief in an antitrust case is 'so far as practicable, [to] cure the ill effects of the illegal conduct, and assure the public freedom from its continuance.' " *Id.* (quoting *United States v. United States Gypsum Co.*, 340 U.S. 76, 88 (1950)). The majority's modifications contravene this purpose by eliminating crucial elements of the relief obtained by the ISOs and by eliminating the injunction's prohibition on a continuation of anticompetitive conduct.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

IMAGE TECHNICAL SERVICE, INC., et al., Plaintiff, v. EASTMAN KODAK COMPANY, Defendant.	Case No. C 87 1686 AWT PERMANENT INJUNCTION (Filed Feb. 15, 1996)

The jury empaneled to hear this case returned verdicts on September 18, 1995, finding that Eastman Kodak Company ("Kodak") violated Section Two of the Sherman Act (15 U.S.C. § 2) by monopolizing and attempting to monopolize the relevant markets for the service of (1) Kodak micrographic equipment and (2) Kodak high volume photocopiers. The jury also found actual injury to ten of the named plaintiffs flowing from Kodak's conduct. Kodak has admitted that it has continued to engage in the challenged conduct throughout the trial. Kodak has also given no indication that it will voluntarily refrain from continuing such conduct. Accordingly, this Court finds that plaintiffs will be subject to continued threatened and actual loss or damage resulting from the probability that defendant will continue its unlawful conduct unless enjoined by this Court under 15 U.S.C. § 26. Moreover, the Court further finds that issuance of this permanent injunction is necessary to alleviate the effect of Kodak's past unlawful conduct.

IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

1. DEFINITION OF TERMS

As used in this permanent injunction, the following terms shall have the following meanings:

(a) "Kodak" shall mean the defendant Eastman Kodak Company, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with any of them who receive notice of this injunction, and Kodak's successors and assigns.

(b) "Kodak equipment" shall refer to all past, present and future micrographic equipment (whether film or digitized media based) made by or for defendant and to all Kodak high volume photocopiers made by or for defendant Kodak including, without limitation, all such equipment serviced by Kodak personnel in the field.

(c) "ISOs" shall refer to any person, firm, corporation or other entity engaged, in whole or in part, in providing equipment on site or field repair or maintenance service to end user customers possessing Kodak micrographic equipment or Kodak high volume photocopiers in the United States.

(d) "Parts" includes the following:

(i) parts for Kodak equipment;

(ii) parts identified or described in Kodak's Parts Lists;

(iii) all parts or supply items that are field replaceable by Kodak technicians (including, without limitation, subassemblies – to the extent that subassemblies are available to Kodak technicians – circuit board level parts, IC chips, image loops, pm packs, filters and cleaning kits);

(iv) service manuals (including those incorporated in hard copy, microfiche or other medium), parts, lists, price lists; and

(v) all tools or devices essential to servicing Kodak equipment including, but not limited to, service modules, meters and electrometers, but excluding tools and devices which are generally available from normal commercial sources and which are not distributed by Kodak to its technicians.

2. SALE OF PARTS FOR HIGH VOLUME COPIERS AND MICROGRAPHIC EOUIPMENT BY KODAK

(a) Kodak shall sell parts to ISOs or any buying cooperatives acting on behalf of ISOs for all models of Kodak equipment for which Kodak or its authorized agents offer service, provided that Kodak reserves the right to require cash on delivery for new sales to any person without an established and reasonably acceptable credit history or who is in default of an obligation to pay Kodak for previous orders or to take other reasonable actions related to credit if applied to ISOs and other third parties in a nondiscriminatory manner.

(b) All orders for parts by ISOs shall be made through the Kodak Customer Parts and Product Support Center (or similar facility) currently located in Rochester, New York.

(c) To the extent Kodak offers to its own technicians, for their use in repairing and maintaining Kodak equipment, individual parts as well as subassemblies containing numerous parts, or to the extent it is reasonable to do so, Kodak will offer to sell to any interested party on reasonable and nondiscriminatory terms and prices such individual parts and subassemblies, even though doing so gives the prospective purchaser the option of obtaining a particular part by itself or as a component of a subassembly.

(d) The provisions of this Injunction apply to equipment models which Kodak will introduce during the term of this Injunction as well as to the equipment models which Kodak has already introduced.

(e) "Sell" as used in paragraph 2(a), above, includes, at Kodak's option, "license" with respect to any copyrighted "parts," on reasonable and nondiscriminatory terms.

3. ISO ACCESS TO THIRD PARTY SOURCES OF PARTS

(a) Kodak shall not interfere with the ISOs' purchase of parts from third party vendors (including the purchase of parts from Kodak parts suppliers), so long as the ISOs or vendors are not causing the breach of any obligation of themselves or a third party not to disclose

proprietary Kodak data, specifications, drawings and/or schematic diagrams; provided that the sale of a part by a third party vendor or Kodak part supplier shall not be deemed to be a disclosure of Kodak proprietary data.

4. NO DISCRIMINATION AGAINST ISOs

(a) Kodak shall not discriminate against any ISO regarding parts availability or prices vis-a-vis any other ISOs, or any other commercial service provider (*i.e.*, Kodak will sell parts to any ISO at the same prices and terms, conditions and delivery schedules offered to any other ISO commercial service provider) which prices, terms and conditions shall, in any event, be reasonable.

(b) Kodak shall not discriminate against any customer or other party on the basis that such customer or other party has used the parts or services of someone other than Kodak in connection with Kodak equipment; provided, however, that nothing in this order shall prohibit Kodak from charging a reasonable fee to inspect Kodak equipment before agreeing to offer an equipment maintenance agreement for service of that Kodak equipment.

5. KODAK'S RETENTION OF PROPRIETARY RIGHTS

Nothing in this Injunction shall prevent Kodak from taking appropriate legal steps to prevent others from duplicating parts for Kodak equipment in which Kodak has a protectable intellectual property interest.

6. NOTICE OF INJUNCTION

Kodak shall, within 45 days of the entry of this injunction, send to its past (within past five years) and current micrographic equipment and high volume photocopiers service customers a notification advising them that Kodak has been ordered to sell Kodak parts to ISOs for the repair and maintenance of Kodak equipment, in a form agreeable to plaintiffs or as approved by the court.

7. TERM OF INJUNCTION

Absent further order of this Court for good cause shown, this Injunction shall expire ten (10) years from the date of its entry.

8. RETENTION OF JURISDICTION

This Court retains jurisdiction of this matter for the purpose of enabling any party to apply for such further orders and directions as may be necessary or appropriate for the construction, modification or termination of any of the provisions herein, or for enforcement and compliance with its terms or for the punishment of violations.

DATED: FEB 15 1996

/s/ A. Wallace Tashima
A. WALLACE TASHIMA
UNITED STATES
CIRCUIT JUDGE
Sitting by Designation

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

IMAGE TECHNICAL SERVICE, INC., et al., Plaintiffs, v. EASTMAN KODAK COMPANY, etc., Defendant.	NO. C 87-1686 AWT POST-JUDGMENT MEMORANDUM ON MOTION FOR PERMANENT INJUNCTION (Filed Feb. 28, 1996)

This is plaintiffs' motion for permanent injunction, following a verdict that defendant has violated § 2 of the Sherman Act, 15 U.S.C. § 2. The court issued a Permanent Injunction ("Injunction") on February 15, 1996. On the same date, in its Order re Permanent Injunction, the court indicated that an order explaining the reasons for the issuance and scope of the Injunction would follow shortly.

I. THREAT OF INJURY REQUIREMENT

Eastman Kodak Company's ("Kodak") first objection to an injunction is that plaintiffs have made no showing of actual or irreparable injury. Kodak overlooks the jury's finding that plaintiffs have indeed suffered actual injury – $24 million. Further, injunctive relief under § 16 of the Clayton Act, 15 U.S.C. § 26, is "characteristically available even though the plaintiff has not yet suffered actual injury. . . . he need only demonstrate a significant threat of injury from an impending violation of the antitrust

laws or from a contemporary violation likely to continue or recur." *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 130 (1969); *United States v. Oregon State Medical Soc'y*, 343 U.S. 326, 333 (1952).

II. MANDATORY EQUITABLE RELIEF IN A PRIVATE ANTITRUST ACTION

Kodak argues that the mandatory provisions of the injunction are inappropriate because they are unavailable to private antitrust litigants.[1] However, there is in fact ample precedent for issuing a mandatory injunction in a private antitrust case. In *California v. American Stores Co.*, 495 U.S. 271 (1990), the Court noted that in a number of prior cases it had "upheld injunctions issued pursuant to § 16 **regardless of whether they were mandatory or prohibitory in character.**" *Id.* at 283-84 (emphasis added) (citing *Zenith Radio Corp.*, 395 U.S. at 129-33, and *Silver v. New York Stock Exchange*, 373 U.S. 341, 345, 365 (1963)). *See also Pacific Coast Agricultural Export Ass'n v. Sunkist Growers, Inc.*, 526 F.2d 1196, 1200-01, 1208-09 (9th Cir. 1975), *cert. denied*, 425 U.S. 959 (1976).

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[1] Kodak may have been misled by a line of cases finding dissolution and divestiture to be unavailable to private litigants under § 16. *International Tel. and Tel. Corp. v. General Tel. & Electronics Corp.*, 518 F.2d 913, 922 (9th Cir. 1975). In *California v. American Stores Co.*, 495 U.S. 271, 283 (1990), the Court held that § 16 does in fact authorize divestiture as a remedy for private litigants, thereby overruling *International Tel. and Tel.* Thus, even if the availability of divestiture as a remedy were somehow relevant to the instant case, which it is not, this ground for differentiating between public and private antitrust actions no longer exists.

III. MANDATORY SALE OF PARTS TO ISOs[2]

A. The Lawfulness of a Patent Owner's Refusal to Sell

Kodak raises several objections to the mandatory sale provision of the Injunction. First, Kodak asserts that its refusal to sell patented and copyrighted parts was not illegal. It argues that because the Injunction enjoins lawful conduct, it is contrary to law itself.

Case law supports the general proposition that patent or copyright holders are not required to sell their protected products in order to avoid antitrust liability. *See, e.g., United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981). Furthermore, the Ninth Circuit's holding in *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995), supports Kodak's contention that its intellectual property rights "extend to the service market." *Id.* at 1337.

However, neither the record nor the verdict supports Kodak's contention that its desire to protect intellectual property actually motivated Kodak's parts policy. To the contrary, it is clear that protection of intellectual property was a pretextual, post-hoc justification of Kodak's parts policy.

The Supreme Court has recognized that "[t]o ensure . . . that relief is effectual, otherwise permissible practices connected with the acts found to be illegal must sometimes be enjoined." *United States v. Loew's Inc.*, 371

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[2] "ISO," as used herein, refers, to independent service organizations, such as plaintiffs.

U.S. 38, 53 (1962). At trial, plaintiffs established that they cannot provide service unless they have access to "all parts." In order to restore competition to the service market, the decree should cover all parts, including copyrighted and patented parts. Kodak's refusal to sell its protected parts is connected with an illegal parts policy adopted to further monopolistic ends. Thus, the court may enjoin what would otherwise be a permissible parts policy.[3] *Loew's*, 371 U.S. at 53; *United States v. United States Gypsum Co.*, 340 U.S. 76, 88-89 (1950); *United States v. Coca-Cola Bottling Co.*, 575 F.2d 222, 228 (9th Cir.), *cert. denied*, 439 U.S. 959 (1978).

Consistent with this conclusion, the Supreme Court has on more than one occasion recognized and approved compulsory licensing and sale of patented devices as remedies in antitrust cases. *See, e.g., United States Gypsum*

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[3] Kodak's reliance on *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945), *supplemented*, 324 U.S. 570 (1945), is misplaced. The Court plainly acknowledged in that case "[t]his is not to say that a decree need deal only with the exact type of acts found to have been committed or that the court . . may not prohibit acts which in another setting would be unobjectionable." *Id.* at 409.

Nor does *In re Multidistrict Vehicle Air Pollution*, 538 F.2d 231 (9th Cir. 1976), help Kodak. The injury in the instant case is undeniably harm to the competitive market system, which the antitrust laws were designed to protect. In contrast, the harm to be alleviated in *Multidistrict Vehicle Air Pollution* was environmental, not economic, *id.* at 236; thus, that case is inapplicable.

Co., 340 U.S. at 94; *Besser Mfg. Co. v. United States*, 343 U.S. 444, 449 (1952).[4]

As long as Kodak licenses or sells its protected parts to other buyers, the court may require Kodak to license or sell those parts to ISOs. The only way that Kodak may avoid the compulsory sale provision is to withdraw from the parts market altogether, but then it must discontinue selling and licensing to all other parts distributors and Kodak service customers as well. *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 64 (1973) (ordering sale and licensing for as long as the defendants sold to any United States purchaser); *International Salt Co., Inc. v. United States*, 332 U.S. 392, 398 n.7 (1947) (mandating sale or licensing as long as defendant leased, sold, or licensed machines within the United States and providing that "at any time the defendant may discontinue the business of renting or selling or licensing the use of such machines").

Kodak's reliance on *Hartford-Empire Co. v. United States*, 323 U.S. 386 (1945), is also misplaced. The Court there found the royalty-free licensing provisions to be an unjustified forfeiture of the patents. *Id.* at 417. In contrast, the Injunction here provides a "reasonable" price for the sale of Kodak parts, and therefore, does not amount to forfeiture. *Id.*; *Besser Manufacturing Co.*, 343 U.S. at 447.

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[4] It is inapposite that these cases involve patent misuse whereas there has been no finding of patent misuse in the instant case. Even without a specific finding of patent misuse, it is within the court's "large discretion," in fashioning a remedy for Kodak's § 2 violation, to enjoin Kodak's otherwise permissible refusal to sell protected parts. *Loew's Inc.*, 371 U.S. at 53; *United States Gypsum Co.*, 340 U.S. at 88-89.

B. Restriction of Future Intellectual Property Rights

Courts have upheld narrowly tailored restrictions on future patents. *Hartford-Empire*, 323 U.S. at 417; *United States v. National Lead Co.*, 332 U.S. 319, 348 (1947). As modified, the injunction here is narrowly tailored to restrict Kodak's future intellectual property rights only with respect to micrographic and high-volume photocopier equipment.

C. Duration

The Supreme Court has approved five-year injunctions in antitrust cases. *National Lead Co.*, 332 U.S. at 348, 358-59. The Supreme Court has also implied that injunctions lasting longer than five years may be appropriate in certain cases. *United States Gypsum Co.*, 340 U.S. at 94. In this case, the court has found that 10 years is an appropriate period for the Injunction to offset the 10 years that Kodak's illegal parts policy has been in effect.

D. Parts Reasonably Obtainable Elsewhere

Kodak asserts that the Injunction improperly requires it to sell many parts that plaintiffs are able to obtain from other sources, in spite of Kodak's restrictive parts policy. In essence, Kodak is reiterating its argument that it cannot be compelled to sell parts that it has not monopolized.

However, plaintiffs have presented substantial evidence of an "all parts" monopoly. Moreover, because

Kodak's "purpose to restrain trade appears from a clear violation of law, it is not necessary that all of the untraveled roads to that end be left open and that only the worn one be closed." *International Salt Co.*, 332 U.S. at 400. The court must not exclude from the Injunction those parts that Kodak did not successfully monopolize in the past only to allow Kodak to focus its proven anticompetitive efforts on them in the future.

E. Applicability of the Injunction to Non-party ISOs

Kodak points out that in certain cases, it may be improper to grant relief on a class-wide basis without a properly certified class. *Zepeda v. U.S. INS*, 753 F.2d 719, 727 (9th Cir. 1983).

However, the Ninth Circuit has held that "an injunction is not necessarily made over-broad by extending benefit or protection to persons other than prevailing parties in the lawsuit – even if it is not a class action – if such breadth is necessary to give prevailing parties the relief to which they are entitled." *Bresgal v. Brock*, 843 F.2d 1163, 1170-71 (9th Cir. 1987). This principle is consistent with *Bailey v. Patterson*, 323 F.2d 201 (5th Cir. 1963), *cert. denied*, 376 U.S. 910 (1964), a desegregation case in which the Fifth Circuit stated:

> Appellants do not seek the right to use those parts of segregated facilities that have been set aside for use by "whites only." They seek the right to use facilities which have been desegregated, that is, which are open to all.

Id. at 206. The relief necessary to remedy the segregated transportation for individual plaintiffs was identical to that necessary for a class. Therefore, the *Bailey* court found it unnecessary to certify a class. *Id.*

In contrast, it was possible in *Zepeda* to enjoin INS policies with respect to the individual plaintiffs without affecting other aliens of Hispanic background. Distinguishing *Bailey* on this basis, the Ninth Circuit held that the injunction could apply only to the individual plaintiffs, unless the district court properly certified a class on remand. 753 F.2d at 729 n.1.

The Court finds *Bailey* more applicable to the instant case than *Zepeda*. Plaintiffs here do not seek a unique right to purchase parts at any particular price. Instead, they seek to end Kodak's discriminatory parts policy, deprive Kodak of the benefits of its illegal conduct and restore competition in the market place. *Multidistrict Vehicle Air Pollution*, 538 F.2d at 234. The relief necessary to remedy Kodak's illegal parts policy for plaintiff ISOs is identical to that necessary for a class. *Accord Hawaii v. Standard Oil Co.*, 405 U.S. 251, 261 (1972) (while numerous parties "may all sue for injunctive relief against violations of the antitrust laws . . . simultaneously against the same persons for the same violations, the fact is that 100 injunctions are no more effective than one"). Under *Bresgal* and *Bailey*, the court may issue the Injunction without certifying a class. *Cf. Wilk v. American Medical Ass'n*, 895 F.2d 352 (7th Cir. 1990) (enjoining the AMA's boycott against chiropractors and ordering the AMA to mail the injunction to every AMA member and to publish it in the *Journal of the American Medical Association* even though 30,000 chiropractors who were never parties to the case would benefit

from the injunctive relief), *cert. denied*, 496 U.S. 927, *and cert. denied*, 498 U.S. 982 (1990).

F. Monopolistic vs. Reasonable, Non-discriminatory Prices

In opposition to the reasonable and non-discriminatory price provision of the Injunction, Kodak asserts that it has an unqualified right to charge profit-maximizing monopolistic prices. Kodak further contends that there are no good proxies for ISO pricing in any prices that Kodak is currently charging because Kodak has never attempted to price parts as a monopoly supplier should.

Kodak erroneously assumes that it is still entitled to charge monopolistic prices. Regardless of whether Kodak could have legally charged monopolistic prices on its protected parts in the past, Kodak now stands before the court an adjudged violator of the Sherman Act. To remedy the effects of Kodak's past illegal conduct, the court may enjoin an otherwise permissible pricing policy. *International Salt*, 332 U.S. at 400. Courts faced with this same situation have routinely ordered antitrust defendants to sell and license at reasonable – not monopolistic – prices. *See e.g., Glaxo Group Ltd.*, 410 U.S. at 62; *Hartford-Empire Co.*, 323 U.S. at 417.

Nor does Kodak's blanket assertion regarding its strategic arrangements with Canon and Danka justify its policy of price discrimination against ISOs. It is obvious that Kodak transacted with Canon and Danka differently from how it dealt with ISOs, whom Kodak was trying to squeeze out of the service market. The court will not permit Kodak to set prices so high for the disfavored

ISOs that, in effect, will avoid the Injunction's mandatory sale requirement. In fact, the reasonableness of Kodak's prices may be assessed by comparison with the prices that Kodak currently charges Danka, Canon, and other Kodak dealers and resellers. *National Lead Co.*, 332 U.S. at 350; *Pacific Coast Agricultural Export Ass'n*, 526 F.2d at 1209.

IV. NOTICE TO KODAK SERVICE CUSTOMERS

Kodak has in the past marketed ISOs' limited access to parts as a competitive disadvantage. Requiring Kodak to notify its service customers that ISOs will henceforth have access to Kodak parts will help to eliminate the effects of Kodak's illegal leveraging of its parts monopoly. In light of evidence showing that some service customers begrudgingly switched to Kodak service even though they preferred ISO service, customers will also benefit from this notice requirement. *Wilk*, 895 F.2d at 371 (notice requirement would benefit all health care consumers as well as plaintiff chiropractors).

V. RESTRICTION ON KODAK'S DEALINGS WITH OEM PARTS SUPPLIERS

Kodak alleges that because it did not influence original-equipment manufacturers ("OEMs") not to sell parts to ISOs, it may not be enjoined from interfering with ISOs' transactions with third parties.

The evidence refutes this argument. The record establishes that any OEM known to sell to ISOs would be in

danger of losing its Kodak contract, and Kodak executives expected OEMs to refuse ISOs' business. Even assuming that Kodak's tooling and engineering clauses are otherwise legal, they were intimately connected with Kodak's monopolistic scheme to clinch its "all parts" monopoly. They are thus enjoinable. *International Salt Co.*, 332 U.S. at 400.

VI. TERMS OF SALE AND DELIVERY

Contrary to Kodak's assertions, the Injunction does not force Kodak to alter its existing credit and terms of sale policies or to break down for sale those individual part replacement units that it normally provides only as integrated assemblies to its own service personnel. Instead, the Injunction merely requires Kodak to apply its existing policies equally to ISOs as to other customers. Injunction ¶ 2(a), 2(c).

IT IS SO ORDERED.

Dated: FEB 26, 1996

/s/ A. Wallace Tashima
A. WALLACE TASHIMA
United States Circuit Judge
Sitting by Designation

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

IMAGE TECHNICAL SERVICES, INC.; J-E-S-P COMPANY, INC.; SHIELDS BUSINESS MACHINES, INC.; MICRO-GRAPHIC SERVICES, INC.; OMI MICRO-GRAPHIC SERVICES, INC.; ATLANTA GENERAL MICROFILM CO., INC.; DATEK LTD; B.C.S. TECHNICAL SERVICES, INC.; CPO LTD, INC.; ADVANCED SYSTEMS SERVICE, INC.; AMTECH EQUIPMENT MAINTENANCE, INC., Plaintiffs-Appellees, v. EASTMAN KODAK CO., Defendant-Appellant.	Nos. 96-15293, 96-15296 D.C. No. CV-87-1686-AWT ORDER (Filed Nov. 7, 1997)

Before: BEEZER and THOMPSON, Circuit Judges, GILLMOR, District Judge.*

The panel has voted unanimously to deny the petitions for rehearing. Judge Thompson votes to reject the suggestion for rehearing en banc and Judges Beezer and Gillmor so recommend.

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* The Honorable Helen W. Gillmor, United States District Judge for the District of Hawaii, sitting by designation.

The full court has been advised of the suggestion for rehearing en banc and no judge in active service has requested a vote to rehear the matter en banc.

Pursuant to Rule 35(b) of the Federal Rules of Appellate Procedure, the petitions for rehearing are denied and the suggestion for rehearing en banc is rejected.

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15 U.S.C. § 2. Monopolizing trade a felony; penalty

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $10,000,000 if a corporation, or, if any other person, $350,000, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

(As amended Nov. 16, 1990, Pub.L. 101-588, § 4(b), 104 Stat. 2880.)

35 U.S.C. § 154. Contents and term of patent.

(a) In general. –

(1) Contents. – Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

(2) Term. – Subject to the payment of fees under this title, such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States or, if

the application contains a specific reference to an earlier filed application or applications under section 120, 121, or 365(c) of this title, from the date on which the earliest such application was filed.

(3) Priority. – Priority under section 119, 365(a), or 365(b) of this title shall not be taken into account in determining the term of a patent.

(4) Specification and drawing. – A copy of the specification and drawing shall be annexed to the patent and be a part of such patent.

(b) Term extension. –

(1) Interference delay or secrecy orders. – If the issue of an original patent is delayed due to a proceeding under section 135(a) of this title, or because the application for patent is placed under an order pursuant to section 181 of this title, the term of the patent shall be extended for the period of delay, but in no case more than 5 years.

(2) Extension for appellate review. – If the issue of a patent is delayed due to appellate review by the Board of Patent Appeals and Interferences or by a Federal court and the patent is issued pursuant to a decision in the review reversing an adverse determination of patentability, the term of the patent shall be extended for a period of time but in no case more than 5 years. A patent shall not be eligible for extension under this paragraph if it is subject to a terminal disclaimer due to the issue of another patent claiming subject matter that is not patentably distinct from that under appellate review.

(3) Limitations. – The period of extension referred to in paragraph (2) –

(A) shall include any period beginning on the date on which an appeal is filed under section 134 or 141 of this title, or on which an action is commenced under section 145 of this title, and ending on the date of a final decision in favor of the applicant;

(B) shall be reduced by any time attributable to appellate review before the expiration of 3 years from the filing date of the application for patent; and

(C) shall be reduced for the period of time during which the applicant for patent did not act with due diligence, as determined by the Commissioner.

(4) Length of extension. – The total duration of all extensions of a patent under this subsection shall not exceed 5 years.

(c) Continuation. –

(1) Determination. – The term of a patent that is in force on or that results from an application filed before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act shall be the greater of the 20-year term as provided in subsection (a), or 17 years from grant, subject to any terminal disclaimers.

(2) Remedies. – The remedies of sections 283, 284, and 285 of this title shall not apply to acts which –

(A) were commenced or for which substantial investment was made before the date that is 6 months after the date of the enactment of the Uruguay Round Agreements Act; and

(B) became infringing by reason of paragraph (1).

(3) Remuneration. – The acts referred to in paragraph (2) may be continued only upon the payment of an equitable remuneration to the patentee that is determined in an action brought under chapter 28 and chapter 29 (other than those provisions excluded by paragraph (2)) of this title.

(As amended Oct. 11, 1996, Pub.L. 104-295, § 20(e)(1), 110 Stat. 3529.)

35 U.S.C. § 271. Infringement of patent

* * *

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the license of any rights to the patent or the sale of the patented product on the acquisition of a license to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned.

* * *

(As amended Dec. 8, 1994, Pub.L. 103-465, Title V, § 533(a), 108 Stat. 4988.)

17 U.S.C. § 106. Exclusive rights in copyrighted works

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

(As amended Nov. 1, 1995, Pub.L. 104-39, § 2, 109 Stat. 336.)

LIST OF AFTERMARKET MONOPOLY CASES ACTIVE SINCE *KODAK I*

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